Résumé: Au moment où la France s'engage dans la voie législative pour imposer la semaine de travail de 35 heures, en privilégiant la négociation collective pour la mettre en œuvre, elle provoque des réactions en chaîne quant à l’opportunité de cette mesure pour réduire le chômage. Le patronat s’interroge sur l’impact qu’aura cette mesure sur les coûts, et donc sur la compétitivité des entreprises françaises. Les syndicats, généralement favorables à la réduction du temps de travail, sont divisés sur les contreparties en matière d’heures supplémentaires, d’annualisation de la durée du travail, de rémunération et de création d’emplois. Les économistes et les milieux d’affaires s’inquiètent des coûts que cette mesure impliquera pour le budget de l’Etat sans pour autant résoudre le problème du chômage. Cette mesure sera-t-elle réalisée par une revitalisation de la négociation collective de branche et d’entreprise ? Comment les PME y feront face ? Cette mesure provoque donc un climat d’opinions tant parmi les employeurs que parmi les syndicats - remettant sur le devant de la scène la question de savoir si, et à quelles conditions, la flexibilité accrue du marché du travail contribue au maintien ou à la création d’emplois. Tel est l’objet de l’étude, publiée en anglais, qui est résumée ici, et qui porte sur dix pays de l’Union européenne, à savoir, l’Allemagne, l’Autriche, la Belgique, l’Espagne, la Finlande, la France, l’Irlande, l’Italie, les Pays-Bas et le Portugal. La question de la flexibilité du marché du travail apparaît dans le sillage des deux chocs pétroliers des années soixante-dix et du ralentissement économique qui a suivi. Elle gagne en importance, notamment en Europe, avec la récession et la "stagflation", accompagnées de la quasi disparition de pans entiers d’industries traditionnelles et la persistance d’un chômage croissant. C’est le constat d’échec des politiques économiques visant à amorcer une croissance suffisante pour créer des emplois. Le contraste est d’autant plus frappant que l’économie dérégulée des Etats-Unis crée un nombre record d’emplois. La tentation est alors grande parmi les économistes, notamment de l’OCDE, les milieux d’affaires et les hommes politiques, de désigner la législation sociale protectrice et les pratiques des relations professionnelles, considérées toutes deux être trop rigides, comme les principales causes de la piètre performance économique européenne. Comment retrouver une compétitivité dans une économie de plus en plus mondialisée tout en maintenant un niveau socialement acceptable d’emploi, de revenus et de protection sociale ? C’est la principale préoccupation des partenaires sociaux dans ce débat sur la flexibilité et l’emploi depuis la fin des "Trente Glorieuses".

En effet, pour retrouver la compétitivité, l’OCDE recommande aux gouvernements des pays industriels des modifications substantielles de la législation du travail, des relations professionnelles et de l’organisation du travail, qui toutes remettent en question la protection sociale de base et des droits acquis. Il n’est guère envisageable que de telles mesures puissent être imposées unilatéralement sans obtenir au préalable un consensus sur les garanties et les contreparties acceptables pour les salariés.

La présente étude tente donc de démontrer que, dans cette difficile quête d’un équilibre entre flexibilité et sécurité, des meilleurs résultats ont pu être obtenus, pour les salariés comme pour les entreprises, dans les pays où le dialogue social existe ou a pu être mis en place, c’est-à-dire, là où prévalait un climat de confiance entre les partenaires sociaux.

L’étude retrace le débat sur la flexibilité au cours des vingt dernières années. Elle signale les diagnostics et recommandations successifs formulés par le secrétariat de l’OCDE qui visent à réduire la portée de la législation protectrice de l’emploi et de la rémunération - notamment en matière de salaire minimum - et à promouvoir la décentralisation de la négociation collective pour améliorer la marge de manœuvre des entreprises. L’étude relève que certaines postulats qui sous-tendent ce débat n’ont pas été confirmés par les faits. Ainsi, par exemple, à la fin des années 1980, aucune théorie économique convaincante n’a pu démontrer une relation de causalité positive entre la flexibilité du marché du travail et une baisse importante du chômage.

Si les syndicats sont de prime abord totalement opposés à toute atteinte à leurs droits acquis, ils changent d’attitude face à la persistance et l’ampleur du chômage. La gravité du problème conduit aussi des gouvernements, des chefs d’entreprise et des organisations patronales à reconnaître qu’une action plus volontariste est nécessaire, notamment par les voies législative et contractuelle. Mais face au même problème, la situation est fort différente.

**Mots clés:** Dialogue social, flexibilité du marché du travail, créations d’emploi, chômage, politiques des gouvernements, organisations d’employeurs, syndicats, protection sociale, législation du travail, organisation du travail, réduction du temps de travail, négociations collectives, conventions collectives, entreprises multinationales, PME, Allemagne, Autriche, Belgique, Espagne, Finlande, France, Irlande, Italie, Pays-Bas, Portugal, Union Européenne, OCDE, BIT, mondialisation, intégration européenne, UEM.

**Abstract:** The recent legislation issued by the French government introducing the 35-hour working week - preferably through collective bargaining - aroused a heated debate. Managers and the central employers’ organization are questioning the effect of this measure on costs, and hence on the competitiveness of French companies. The trade unions, generally favourable to working time reduction, are divided in their assessment of its effect on overtime, the annual calculation of working time, adjustment in pay, and job creation. Economists and business circles are concerned about the cost implications for the State budget and question its usefulness in tackling unemployment. Will this legislation revitalize collective bargaining at sectoral or enterprise level? How will small and medium-sized enterprises be able to implement it? The legislation thus highlights the controversy among employers and trade unions, economists and politicians as to whether, and under what conditions, increased flexibility of the labour market can contribute to maintaining or creating jobs. This is the topic of the present study, which is summarized below, and which covers ten European Union countries, namely, Austria, Belgium, Finland, France, Germany, Ireland, Italy, the Netherlands, Portugal and Spain.

The issue of labour market flexibility came to the fore in the context of economic slowdown in the wake of the two oil shocks of the 1970s, and gathered momentum, particularly in Europe, during the past 15 years, when it became clear that policies formulated to combat the recession and « stagflation », did not succeed in generating sufficient economic growth and jobs. By contrast, the job creation record in the deregulated US economy led economists, policy makers and business circles to identify the allegedly rigid labour legislation and industrial relations practices as the main causes of this lacklustre European performance. How can competitiveness be regained in an increasingly globalized economy while maintaining a socially acceptable level of employment, income and social protection? This is a major concern of the social partners in this debate on flexibility versus jobs over the past two decades.

Indeed, to regain competitiveness, the OECD recommended to the governments of industrialized countries major changes in labour legislation, industrial relations and workplace practice which put into question a broad range of acquired rights and basic protection. Arguably, such changes could not be introduced unilaterally without a prior consensus on the guarantees and trade-offs for the wage earners.
This study attempts to show that, in the difficult quest for an acceptable balance between flexibility and security, better outcomes have been achieved for both wage earners and enterprises, in countries where conditions for social dialogue have existed or been put into place. This requires a climate of confidence among the social actors.

The study puts the current debate on labour market flexibility vs. the rising unemployment in a broad time perspective of past twenty years. It highlights the main arguments put forward by the OECD secretariat in favour of reducing the scope of protective employment and pay legislation - particularly on minimum wages - and of decentralizing collective bargaining with a view to enhancing enterprise flexibility. It also indicates that some basic assumptions, which underpin this debate, have not been supported by evidence. For example, by the late 1980s there was no convincing economic theory demonstrating a positive causal relationship between labour market flexibility and a significant drop in unemployment.

While the trade unions were at first adamantly opposed to any encroachment on their acquired rights, with the persistence and growth of unemployment, in a number of countries they reviewed their position in order to be able to address the issue. Some governments and employers' organizations were also let to reconsider the need for a more voluntarist action to deal with the job crisis, particularly through legislation and collective bargaining. But in front of a similar problem, the responses differ widely among countries, reflecting the diversity of traditions and practice of social dialogue. The study thus reviews, on the one hand, the main legislative measures taken by a number of European governments - and more recently, by the European Commissions - to tackle unemployment. On the other hand, it highlights the outcomes of collective bargaining at national level (employment and social pacts) and of sectoral or enterprise agreements dealing with various parameters of flexibility and trade-offs in terms of job security, income security, conditions of work or training (such as the arrangement and/or reduction of working time, calculating working time on an annual rather than a weekly basis, introduction of part-time and temporary work, adjustment of pay, minimum wages, skill upgrading, early retirement, job creation or protection of existing jobs, etc.). The study also shows the interaction between legislation and collective bargaining, particularly where the latter failed to produce results.

The study also looks at the constraints for social dialogue as a result of the weakness of the social actors and the institutions for collective bargaining, the globalization of the economy and the process of economic integration in Europe. These constraints include, in the first place, the inadequate representativity of both employers' organizations and trade unions, the decline and fragmentation of trade unions, the increased decentralization of collective bargaining, and the growing individualization of the employment relationship. Second, globalization combined with the accelerated liberalization of the movement of capital, goods and services, and in their wake, the growing importance of multinational companies. The latter are substituting individual motivation and human resources management practices for collective employment relations. Lastly, the accelerated process of European integration, with the conclusion of the Maastricht Treaty and the Pact of stability, as well as the launching of the European Monetary and Economic Union (EMU) in January 1999, limit the freedom of action of governments and the social partners at national level. While the Maastricht and Amsterdam Treaties offer an unprecedented scope for action by the social partners at the European level, the latter have not yet fully used this option. The conclusions dispel some conventional wisdom about labour market flexibility/rigidity, labour costs and the supposed reasons for the US job performance. They draw some lessons from past experience for possible future action by governments and the social actors.

**Keywords:** Social dialogue, labour market flexibility, job creation, unemployment, government policies, employers organizations, trade unions, social protection, labour legislation, work organization, reduction of working time, collective bargaining, collective agreements, multinational companies, SMEs, Austria, Belgium, Finland, France, Germany, Ireland, Italy, The Netherlands, Portugal, Spain, European Union, OECD, ILO, globalization, European integration, EMU.

1. **Introduction**

The issue of labour market flexibility originated in the recession and stagnation which followed the two « oil shocks in the 1970s. It gathered momentum in the early 1980s in OECD countries when it became clear that policies formulated so far to combat recession and stagnation did not succeed in generating sufficient economic growth which would permit to return to acceptable levels of employment [22].

To make things worse, where some growth did occur in the late 1980s and early 1990's, it did not reduce unemployment in most European countries. The lack of resilience of the « job machine » brought to the forefront the debate on « jobless growth » and querying about what went wrong in Europe and who were the main culprits, especially when comparing the European performance with the US exceptional job creation outcomes and some better than average results in some European countries, particularly the Netherlands, Norway and Ireland, and more recently the United Kingdom.

This questioning resulted in the highly controversial debate on « labour market flexibility » within the OECD and the European Union, focusing around the best possible path to achieve high competitiveness in a globalized economy while maintaining a socially acceptable level of employment.
The debate reflects a concern among governments, employers’ organizations and trade unions in Europe about the threat of deteriorating employment situation to social cohesion. The need for urgent remedial action has been generally recognized, but first, a clear understanding of the phenomenon was necessary.

The analyses of the reasons for the persistent and rising unemployment, carried out under the aegis of the OECD secretariat1, provided much insight into the factors at play, but have failed to provide a conclusive and comprehensive explanation and hence the difficulty in formulating remedies to deal with the problem. However, there appeared to be a general recognition that the crisis had to be addressed in the context of a growing integration of the world economy characterized by high mobility of capital flows and a rapid increase in the volume of trade in the wake of deregulation and trade liberalization, more open and market-oriented economies, rapid diffusion of information technologies, an important shift from manufacturing to service economy, a slow rate of economic growth in most of the countries, and a slow growth in productivity.

Labour costs seemed to be the main target of the OECD’s strategy to recovering corporate competitiveness, at least in its 1986 recommendations, and also a major focus of its Jobs study, in 1994, although a better understanding has been achieved of other important factors, particularly macro-economic policies and training. The role that management strategies and attitudes can play and the potential of workers’ involvement and motivation as well as forward looking industrial relations systems have been included in a subsequent OECD project on enterprise flexibility.

The substantial changes in the protective social legislation and industrial relations practices recommended by the OECD secretariat and endorsed by a number of governments, business circles, employers’ organization, and academics were considered by trade unions as tantamount to dismantling basic rights which underpin democratic societies. Such fundamental changes could therefore not be introduced without the involvement of those directly concerned by them - the social actors.

The major changes recommended included two major components: the deregulation of protective legislation on job security (including rules on hiring and firing and restrictions on so-called « atypical » employment contracts such as fixed-term contract, part-time, temporary work, sub-contracted work, and leasing of staff), the maximum hours of work, overtime, time-off, leave, rest periods, minimum wages, retirement age; and the partial or total transfer to the private sector and/or a or substantial cut in the benefits provided by the « Welfare State » in terms of health protection, unemployment benefits and pensions - now under attack both because of growing public deficits and the high non-wage cost that they imply for companies.

At enterprise level, the types of flexibility that have been envisaged in this framework, include quantitative or « numerical » flexibility, which introduces changes in the volume of the workforce, which can be achieved by various means such as changes in the number of workers employed, in the hours worked (including part-time work), in the types of contract (including temporary work and sub-contracting); and qualitative or « functional » flexibility, which includes functional and geographical mobility, multi-skilling and polyvalence, an emphasis on training and skill upgrading, autonomous team and group work. These two forms of flexibility often coexist in the same workplace.

For some, deregulation is tantamount to dismantling all existing social legislation and other industrial relations practices, considered to be a constraint to the operation of the free market which is supposed to provide the best outcomes. The existence of monopolies and oligopolies, the lack of transparency in both financial and commodity markets, overt or hidden subsidies, fraudulent practices and nepotism, to mention but the most evident factors - hinder the operation of the free market and threaten social cohesion, as evidenced by the experience of Central and Eastern European countries in the process of transition to a market economy, and more recently by the East Asian « emerging economies » in the financial crisis that started in late 1997, the impact of which on the region and on the world economy is not yet fully apprehended.

But deregulation can also mean changes in the types and methods of regulating, for instance, by law or by collective bargaining, particularly in such areas as job creation and preservation, the organization of working time, training, remuneration and organization of production. In these sensitive areas, some kind of social dialogue needs to take place at the appropriate policy-making levels - where a « voice » can be ascertained for those primarily affected by the outcomes - the wage earners, employers, local authorities, central governments, consumers, and the « excluded » who recently tried to become « vocal » and get organized, particularly in France and Germany.

Institutional arrangements need also to exist to ensure co-ordination among the different decision-making levels at macro-, meso- and micro-levels to avert undesirable contradictory outcomes and to encourage dissemination of successful pioneering experiments. This is easier said than done, given the existing differences among national social legislation and industrial relations systems and practices in Europe. Indeed, social dialogue in its broadest sense - including consultation, concertation and collective bargaining to address the job crisis has taken place at different levels - national, sectoral and enterprise levels -, sometimes separately, sometimes concurrently, in an attempt to tackle the job crisis, partially or more comprehensively.

This paper looks at these different facets of social dialogue in Europe over the past two decades, and more particularly since 1990, against the backdrop of the flexibility debate and efforts to preserve and create jobs. In this process, the basic concerns remained the same - that is, ensuring the survival of enterprises and a decent standard of living of the population. Over that period, the focus of collective bargaining at various levels moved from being essentially distributive in nature - during the three decades of post-world-war II growth - to the preservation of jobs via reduction and/or rearrangement of working time, more frequent use of diversified forms of employment contracts, wage moderation and, increasingly, training and skill up-grading to promote « employability ».

What has changed in the early 1990s, as compared to the previous decade, is the attitude of the social actors towards the need for adjustment via innovative approaches to address the problem. This is partly due to the reco-

gnition of the unavoidable impact of the accelerated pace of globalization, the rapid diffusion of information technology, trade liberalization and the unprecedented speed and volume of capital movements. The recent progress in the European integration process with the strict convergence requirements of the Maastricht Treaty is also exerting pressure on governments and the social actors to adapt their strategies to a new political and economic context.

This paper attempts to show that, in this difficult attempt to achieve acceptable trade-offs between economic and social objectives, better outcomes in addressing these basic issues have been achieved where conditions for social dialogue have existed or been put into place. This outcomes include measures to preserve and create jobs, to facilitate staff adaptation to changes and to alleviate the adverse social cost.

The paper consists of six sections: an introduction (section I); an overview of the context in which the flexibility debate took place in Europe and the changing attitudes of governments and the social actors (section II); the current constraints on social dialogue in a globalized economy (section III); Social pacts and collective agreements to preserve jobs (Section IV); social dialogue to promote employment in the context of European integration (Section VI), and concluding remarks drawing some lessons of this experience for the social actors (Section VI).

2 Overview of the flexibility debate

2-1 The context

The economic crisis that followed the two oil shocks was both structural and cyclical. It affected entire industrial sectors in OECD countries, giving rise to severe reductions in the workforce. Particularly hard hit were coal mining, iron and steel, textiles, shipbuilding, automobiles, in which trade unions were strong and firmly established. At first, governments and the unions tried to mitigate the adverse consequences of restructuring for the workforce, with the governments granting massive subsidies to the failing sectors and companies, while unions engaged in « concession » bargaining to mitigate the impact of massive redundancies and to help in the adjustment process, particularly by facilitating training and mobility.[23] But then, it became clear that competitiveness will not be regained without investment in equipment, state-of-the-art technology, increased productivity, and more flexible labour market.

In its Jobs Study[2] the OECD points out that a slowdown in growth in both output and productivity was a common feature in all its member States in the 1970s and 1980s as compared to the 1960s. In this context, it also recalls that a precondition for hiring workers with given skills and abilities was that their productivity level was sufficiently high to meet the wages demanded. This precondition was missing in its opinion, since wage structures were not flexible downwards when there was a decline in the demand for low-skilled workers, as was the case in Europe, and as a result these workers priced themselves out of work. It sees the institutional set-up of wage fixing, and more particularly collective bargaining, the objective of which is to achieve wage gains collectively, as preventing the adjustment of pay levels to productivity according to the individual’s performance, stifling as a result competition in the labour market.

Its analysis of the institutional set-up includes legislation that:
- enables unions and employers to agree on wages « beyond market-clearing levels »;
- regulates union recognition procedures and duty to bargain (limited in Europe to France, Luxembourg, Portugal, Spain and Sweden);
- provides statutory extension procedures of collective agreements beyond the direct bargaining parties, which is common in most European countries (Austria, Belgium, Finland, France, Germany, Greece, Italy, Netherlands, Portugal, Spain, Switzerland), although the scope of extension and actual application differs among countries;
- guarantees of union security (in Anglo-Saxon countries, but now phased out); it acknowledges, however, that « the removal of closed shop arrangements per se does not seem to have had much direct impact on wage determination »[3]; and regulates industrial disputes, acknowledging the right to take industrial action but imposing restrictions thereon.

As far as bargaining levels are concerned, the OECD favours decentralized and multi-level bargaining which can introduce a large degree of flexibility in relative wage levels at industry, regional, enterprise or plant levels, and also provides an opportunity for performance-related pay.

While it finds that this relative wage inflexibility is an important reason for declining job opportunities, it points out that major changes in wage structures did take place in various European countries over the past two decades, reflecting education and skill differentials, age (with declining relative wages for young workers), and gender (with a relative increase of women’s wages in the 1980s).

Other barriers to job creation identified by the OECD include high statutory minimum wages and non-wage labour costs - which, when combined, price young people and low-skilled workers out of the labour market -, employment protection legislation (regulations on hiring and firing, fixed terms contracts and other « non-standard » forms of employment), strict working-time regulation which limit flexible working time arrangements, unemployment and related welfare benefits which may create a disincentive to take up work, high income tax and social security contributions which can have the same effect, and inadequate or inappropriate training programmes.

In line with these findings, the strategy promoted by the OECD includes, besides a set of macro-economic policies, in particular to keep inflation and budget deficits under control, targeted measures:

The OECD subsequently carried out reviews of the impact of the Jobs Study recommendations on progress in member States, indicating successful outcomes and areas where more action is needed. The first such review, undertaken in 1995, notes the persistence of high unemployment rates in many of the countries, particularly among women, the low-skilled and youth (average unemployment in EU members of the OECD stood at 18.6% in 1994, with peaks of 38.3% in Spain, 31.1% in Italy and 30.5% in Finland; rates varying between 20% and 28.8% for Belgium and France; and the lowest rates in Austria, the Netherlands and Luxembourg, 4.8%, 7.8% and 7.1% respectively). It notes that the higher incidence and duration of long-term unemployment and the growing wage disparities, exacerbate the problems of work incentives, poverty and social exclusion. It stresses that most options for promoting sustainable employment involve difficult trade-offs and entail potential pitfalls which can be more damaging to the people they are supposed to help. Thus for instance, subsidizing job-related benefits to encourage low-skilled workers to accept low-paid jobs has aggravated the « poverty traps ». Its recommendations for further action reiterate most of those formulated in the Jobs Study, including, i.a. the great potential for enhancing public sector efficiency, lowering subsidies to industry and agriculture, undertaking a fundamental reassessment of social transfers, adapting old-age pension regulations to demographic realities - by discouraging part-time and early retirement and raising retirement age, reducing too generous pension benefits and increasing pension contributions, reforming health care systems to make them more cost effective, and broadening the base of direct taxes by reducing or eliminating exemptions.

It stresses that removing structural rigidities in labour and product markets, recommended by the Jobs Study, would sustain the credibility of monetary and fiscal policies. Increased flexibility in wage and price formation would facilitate adjustment to changes in demand patterns and to new technological developments, thereby reducing the social costs of adjustment. While it notes progress in some countries towards deregulation in the labour market, particularly related to non-standard forms of employment and working time patterns - it underlines the scope for further action in these areas, as well as the need to improve the performance of public employment agencies by devoting more time to job search and counselling, integrating placement, benefit administration and referral to training and related programmes in the same front-line offices, better targeting of homogeneous groups and monitoring delivery, and seeking co-operation of private placement agencies. This latter recommendation is very much in line with the Convention and Recommendation on Private Employment Agencies adopted by the International Labour Conference in June 1997.

In its most recent review, the OECD gives itself full marks for its clairvoyant blueprint for reform formulated by the Jobs Study, stating that it stood the test of time, since the assessment of the performance in 21 member States offer concrete proof that the recipe works. In 1998, it says, Denmark and Australia joined the other countries - the UK, Ireland, the Netherlands and New Zealand - which succeeded in reducing structural unemployment through reform. But this is not the whole picture. It notes that structural unemployment rose during the 1990s in ten other countries which were reluctant to take action that could lead to wider income disparities and antagonize those who are in employment - the « insiders ». The study stresses the importance of helping the « outsiders » - women, younger and older workers, who are marginalized in the labour markets - to get jobs. The review concludes by underlining the importance of innovation and technological development for economic progress and employment. However, to reap the full benefit of science and technology, it underlines the need for complementary changes in corporate governance, education and training and effective upskilling, capital market structures and a supportive environment for technological diffusion and innovation.

In the latest issue of its Employment Outlook, the OECD acknowledges that neither economic theory nor econometric calculations have been able to assess the exact impact of minimum wages on employment. It also recognizes that the possible negative impact on jobs can be limited, for example, by fixing lower minima for young workers and trainees. While it feels that a high level of minimum wages can adversely affect jobs, it mentions findings by two American economists, Card and Krueger, which indicate that an increase in minimum wages can, in some cases, actually result in net job creation. The OECD concludes that there is a great diversity in determining minimum wages among its member States, noting that in counties where minimum pay is relatively high, pay disparities are more limited and there are relatively less low-paid jobs.

1. Ibid.
At the micro-level, the OECD undertook a project in 1996 focusing on enterprise flexibility1, examining the changes - both organizational and strategic - which are necessary for enhancing enterprise performance, and their implications for industrial relations, industrial policy and human resource development. Such changes generate a movement towards forms necessary for enhancing enterprise organization and strategy based on « high skill » and « high trust », characterised by high quality of output, an appropriate mix of qualifications and competencies among the workforce, sound labour-management relations, and good communications within the enterprise and between the enterprise, its suppliers and customers. To develop such a workforce, training, skill polyvalence and work practices have to be combined to motivate staff for higher performance. This implies not only a major investment in « human capital » and constructive human resources practices but also variable pay schemes. Its findings at enterprise level show close links between productivity gains and training and education, and between new organizational structures and work practices for a more effective use of technology. Taken together, they enhance both the quality of the workforce and the enterprise’s productivity and competitiveness. Such a strategy also enhances enterprise potential to sustain and create jobs and provide individuals with higher earnings.

However, in spite of these positive correlation, the OECD notes the persistence of firm-level barriers to the adoption of new structures and work practices, which in many cases are related to managerial resistance, further aggravated by three unexpected barriers:

- the uneven introduction of organizational and strategic innovation;
- the perverse effect of the increased use of non-standard employment, which acts as a disincentive for investment in human capital because of the uncertainty among employers and workers about their ability to reap the return on such investment, in spite of the pressure to acquire higher qualifications and upgrade the capacity to apply them quickly, without which innovation is delayed or blocked;
- another perverse effect of the workforce that result from the human resource management practices associated with the innovation-driven new methods of production and operations. Such practices differentiate pay and terms and conditions of employment, including access to training, aggravating inequalities which threaten social cohesion.

These barriers threaten the long term sustainability and efficiency of the organizational and strategic innovations, while imposing a high social cost on further innovation.

To overcome these barriers it examines the role for government in terms of industrial policy, and education, training and the labour market policies. It also considers the options for the social actors in the context of industrial relations systems and collective bargaining. It identifies various factors that could play a role in future, among which it sees industrial relations systems that are « transforming themselves as tools for facilitating adaptability of enterprises and workers ». It explains this new role by the fact that many elements of enterprise flexibility - such as participative decision-making and broad access to information - used in the context of adversarial labour relations which characterize the Anglo-Saxon countries, have proved to be inconsistent with the objectives of either trade unions or employers. Moreover, it states that management styles based on increasing profitability by minimizing costs, focusing only on controlling wages, hinder the social partners from encouraging long-term adaptability and innovation. By contrast, a management style based on enhancing profitability by improving productivity, value-added and product quality, favours employee involvement in product and process quality improvement and stimulates employee development. This approach would require i.a. mechanisms for consultation, negotiation and collaboration between the social partners that are consistent with the management styles of the « productivity enhancement approach ».

Similar diagnostic and conclusions are found in the European Commission’s various policy papers and reports. More particularly, the 1993 Commission’s White Paper on « Growth, competitiveness and employment » identified organizational capacity as a key factor in enterprise competitiveness. More recently, the 1997 Commission’s Green Paper on « Partnership for a new organisation of work » starts from the same perspective as the afore-mentioned OECD papers. It states that « the European employment strategy calls for an integrated approach whereby all policies, including macro-economic and structural policies, contribute and support each other in the fight against unemployment. Improvements in the flexibility of work have been highlighted as essential elements of this strategy. » (Paragraph 3). However, it notes, that while much has been written about the need for labour market flexibility and its regulation, not enough was said about the need for both flexibility and security in the organization of work in the workplace. It recalls the European Council’s meeting in Essen in 1994 which stressed the need to intensify job growth « by a more flexible organisation of work in a way that fulfils both the wishes of employees and the requirements of competition ».

The Green Paper looks at the scope for improving employment and competitiveness through a better organization of work at the workplace, based on high skill, high trust and high quality. Its main purpose is to stimulate debate and consensus among social partners that would allow them to identify their potential for promoting joint initiatives to improve the quality of goods and services, to make innovations and to develop production processes and relations with consumers. It notes the slow diffusion of new work organization practices in spite of their demonstrated positive outcomes in terms of improved productivity, quality and working conditions.

While acknowledging that « the modernisation of the organisation of work can only be achieved by companies themselves, involving management and workers - and their representatives », and taking account of the specific

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situation of the sector, company or organization concerned and the speed of change, the process also poses challenges to policy makers - public authorities, social partners and other non-governmental organizations. These challenges concern the best way to promote policies which support, rather than hinder, modernization, and permit to strike a balance between the respective interests of business and workers. The paper therefore invites public authorities and the social actors to seek partnerships for the development of an appropriate framework for the modernization of work. The paper itself highlights, in a very didactic way, the main issues involved in modernizing the legal, contractual policy framework, covering a comprehensive range of issues such as lifelong learning, the necessary reform of labour law and industrial relations, new approaches to working time - which is central to the debate on the organization of work -, including the annualization of working time and part-time work. It also covers such issues as safety and health, environmental issues, teleworking, the mainstreaming equal opportunities policies, improving the effectiveness of the public sector, and the need to reform taxation and to adapt social security.

In the context of the debate on enterprise organizational renewal called for in the Green paper, the European Foundation for the Improvement of Living and Working Conditions, published the results of a postal survey carried out in 10 EU countries among 5’800 companies of different sizes in various economic sectors which tries to assess management’s perceptions of the nature and extent of different types of direct participation, its links with organizational strategies and its effects on business performance indicators such as output, costs, quality, absenteeism and job creation.

It is interesting to note among the survey’s conclusions1[13] that the incidence of direct participation (DP) is widespread in the ten countries, although it covers very different realities in the various places. The share of workplaces with direct participation was greater in services, notably public services, than in industry or construction, it was more likely to exist in workplaces with white-collar workforce having higher qualification and operating in complex task structures. The main emphasis is on team work and training is provided mainly within the enterprise. The incidence of DP varies little according to the enterprise’s size or its competitive situation. There is a positive effect on reducing direct and indirect labour costs. There seems to be a neutral relationship between DP and collective representation of the workforce. Indeed, the degree of unionization, union representatives, works councils and collective bargaining do neither hinder nor promote the diffusion of direct participation. The survey actually finds a relatively high level of involvement of employee representatives in the introduction of various forms of direct participation, and therefore concludes that organized labour is not a barrier to organizational change in Europe.

The survey generally finds a positive correlation between direct participation and increases in employment, but it qualifies this statement. In the short term, functional flexibility associated with comprehensive forms of direct delegative participation promotes rationalization, often associated with a negative impact of employment. Not surprisingly, external numerical flexibility is found to have a negative medium term employment impact, whereas internal numerical flexibility through part-time and temporary work has a positive impact, while companies who have not introduced internal flexibility face a decline in employment in the medium term. At the same time, a sizeable minority of companies without DP have increased employment.

Of the ten countries surveyed, Germany has experienced the worst negative scenario, where direct participation (DP) is associated with strong rationalization, weak expansion of output and the strongest short term and medium term declines in employment. In France, DP results in weak rationalization and weak expansion of output. Ireland, Portugal, Sweden and the UK seem to have improved competitiveness, with a strong expansion of output based on strong cost and process rationalization. Italy comes close to these results with a stronger impact on rationalization - at the expense of employment - and a strong, but somewhat lower, expansion of output, while Denmark and the Netherlands have relatively weak rationalization impact combined with a strong increase in output, but they have outperformed the other countries in terms of employment, since they have managed to absorb 70% of all lay-offs associated with the introduction of direct participation within a flexible and growing internal labour market.

The survey demonstrates the innovative potential of employment creation and retention based on different strategies using functional flexibility in the organization of work, DDP and integrated product and process innovation. But direct participation requires qualification and training which also condition the outcome in terms of economic results. In spite of these positive results, the survey concludes that very few companies (between 2% and 6%) use the strategies in a comprehensive and integrated manner, 42% have no functional flexibility strategy and 23% have no internal flexibility nor innovation strategy. Much therefore needs to be done to encourage companies, particularly SMEs to adopt such strategies. The Foundation recommends the establishment of networks to disseminate best practice, comprising in particular MNCs and SMEs, and developing partnerships with European unions who could be used as agents of organizational change, since they have been criticizing management for not moving fast enough to use the full potential of direct participation.

This reasoning brings us closer to the approach outlined in the introductory comments about the need for a balanced approach in the flexibility debate between economic and social factors when trying to address both enterprise competitiveness and employment growth.

2-2 The attitudes of the social actors

2-2.1 Governments

Governments stepped up efforts to encourage job-creation by granting financial incentives to companies for creating new jobs, and to individuals for setting up new businesses. Other forms of State assistance to companies include reduced social charges and tax relief, recruitment subsidies for hiring young unemployed people, facilita-


ting early retirement, sometimes on condition that the retirees be replaced by new young recruits, providing grants for retraining, and even financial support to cushion heavy financial losses in the worst hit sectors.

Given the magnitude of « stagflation » following the oil shocks, an increasing number of governments also stepped up tripartite approaches to deal with the crisis. There seemed to be a consensus that adequate responses to the crisis escaped the capabilities of a single actor or that such responses could be easily undermined by any of the actors. Thus, in the early 1980s, tripartite agreements were concluded in countries where there was almost no tradition of national framework agreements. The Irish National Understanding of 1980 and 1981 and the 1981 Spanish National agreement on Employment exemplify this trend towards centralization of co-operative arrangements in response to the crisis.

A common denominator of these tripartite approaches was the recognition of the need to combine industrial relations arrangements with other policy measures, such as fiscal measures, increased public investment and improved provision of social security to facilitate wage moderation. Governments were thus the main driving force behind some of the major agreements. On a number of occasions they also had to act unilaterally to contain inflation while preserving jobs.

In the 1990s, recognizing the importance of social security contributions in total labour costs (« non-wage labour costs »), a number of governments tried to reduce in a variety of ways this burden. To mention but a few examples: in Germany, the federal government transferred part of the cost from the enterprise to the taxation system by increasing the value-added-tax.

In France, the failure of successive measures over the past decade to promote employment through various types of solidarity contracts and training contracts led the Conservative government to introduce in June 1996 the so-called « Robien Law », (named after its promoter, an MP mayor of Amiens, Gilles de Robien), to facilitate job creation through collectively negotiated working time reduction. It subsidizes employers’ social security contributions, as an incentive to recruit or to preserve jobs of the low-paid workers, on condition that they also negotiate agreements on working time reduction (for an assessment of the impact of this law, see below Section IV).

The Socialist government, which won the elections in France, in May 1997, undertook to implement one of its major election campaign promises to introduce a law reducing the working week to 35-hours by the turn of the century. It hoped to elicit a national consensus around this project which aimed both at combating unemployment and reviving social dialogue. For this purpose it convened a national tripartite forum on employment in October 1997, during which it announced its intention to go ahead with the legislation. This has been violently contested by the central employers’ organization, CNPF, and the powerful mining and metal trades employers association, UIMM, who maintained that the measure will be counterproductive to both job creation and enterprise competitiveness - due to the rising wage cost. The estimates of the potential for job-creation vary widely - some government sources put it at between 400’000 and 800’000, the Central Bank had many doubts about the positive impact on employment, while the Employment and Solidarity Ministry anticipates that it will result in between 210’000 and 280’000 new jobs over five years.

The law was approved by the National Assembly on 19 May 1998. A number of enabling decrees are still pending, including those that would address the sensitive issues of the way to compute the statutory minimum wages (the employers fear that there will be a multiplicity of minima depending on the actual working hours), the period of reference for calculating working time and overtime. The annualization of working time, demanded during the past decade by employers to ensure flexibility to adjust to fluctuating levels of activity, has just received an unexpected support from the newly established Higher Council on employment, Income and Costs (CSERC) claiming that annualization is necessary to reconcile business needs and job creation. The relationship between part-time and the new reduced working week would also need to be clarified - the diversity of schedules in the same enterprise is a real nightmare for personnel managers, for work organization and for employees who need to know their rights.

Over the years various governments have also developed a number of training schemes for the unemployed and for young workers, but these have not had much impact on reintegrating the trainees into the labour force. The solidarity-cum-employment contracts (« contrats emploi-solidarité » - CES), and consolidated employment contracts (« contrats emplois consolidés » - CEC) concerned, in 1996, some 460’000 people among the most vulnerable, mainly the least trained and the least « employable » youth. Between 1989 and 1991, trainees who benefited from these contracts did not find non-subsidized jobs and have frequently become unemployed again. In fact, youth coming out of the school system who went through these contracts were more likely to be unemployed than if they had followed another form of training, and this negative result applied all levels of qualification [6].

In the Netherlands, since the serious economic downturn in the 1970s and early 1980s the government has actively promoted, in close co-operation with the social partners, part-time work and fair treatment for part-timers. It has supported initiatives by the social partners to promote part-time work by improving the quality of such jobs both in terms of conditions of employment and social security benefits. Equal treatment in access to social security coverage is now linked to the existence of an employment contract, irrespective of working time (it may be recalled that restricting access to social and other employment protection to a certain threshold of weekly working hours has been a major obstacle to part-time work, penalizing part-timers in various countries, particularly the UK, and earlier on Ireland). In 1993, the government removed the qualifying threshold for access of part-timers to national minimum wage and statutory holiday entitlements. The principle of equal treatment regardless of working time which is included in sectoral collective agreements, was introduced in the labour legislation in 1996.

The Dutch government is also taking measures to enhance the participation rate of the population which is one of the lowest in the EU (62.4%), and is now introducing legislation to provide more job security to « atypical »

workers and flexibility in the labour market. The proposed legislation will extend fixed-term contract (up to three years), reduce notice periods and simplify procedures for temporary work agencies.

The different measures taken over the past 15 years in the Netherlands have resulted in an above-EU average annual GDP growth at around 2.5% since 1987 and a record low budget deficit of 2% of GDP in 1997. In terms of employment growth, since 1982 there has been a cumulated increase of 16% (and 2.5% in 1997) and a decline in the unemployment rate which now stands at 5.5%, down from 7.4% in 1996. This is the result of a tripartite consensus achieved in 1982, in the « Wassenaar agreements » which focus on job creation at the expense of a long-term wage moderation. Pay moderation has thus been maintained for over a decade and has recently been renewed for another four years in an agreement known as « Agenda 2002 ». The importance of consensus and social dialogue are demonstrated by the wide coverage of collective agreements (73% of the total workforce), mainly through sectoral agreements, most of which are extended by the Labour Minister to all the workforce in a given industry.

This positive job creation experience in the Netherlands has recently been contested by some commentators, including the OECD, because of the high incidence of part-time work - 38% of the workforce - the highest among industrialized countries and the lowest working time per employee at around 1400 hours per year. The latter is attributed to the fairly high number of people who were encouraged to quit the labour force via early retirement and long-term disability benefits. If one adds to these categories the people in training and subsidized employment schemes, these groups outnumber the officially unemployed, translating into a broad unemployment rate estimated by the OECD at an impressive 27.1%. The cause of the successful economic performance is attributed to a strong depreciation of the exchange rather than to labour market flexibility.

In Austria, the government has recently introduced a package of measures, which took effect on 1 January 1998, to promote job creation and alleviate the financial situation of the social insurance funds. The schemes have been formulated on the basis of proposals from the trade unions, who reached a collective agreement in February 1997 on greater flexibility in working time, enabling the calculation of working hours on annual basis or even longer (previously this was limited to several weeks).

The measures include incentives for workers to reduce working time on a temporary basis or take career breaks or educational leave to enable their employer to recruit extra staff. The State will pay a solidarity bonus from the employment insurance funds to compensate the loss of pay due to shorter hours to employees who opt for such arrangements, the level of which is related to the proportion of the hours reduced. Such bonus will be made on condition that the schemes are agreed upon on a voluntary basis for a group of employees for a fixed term and that the employer hires extra staff to maintain the volume of working hours. To avoid abuses, employers may only operate such schemes in the framework of a collective or company agreement.

Similar arrangements apply to career breaks of between 6 and 12 months, but they may be agreed upon individually. They apply to employees who have three years of service who opt to take career breaks for training. In this scheme, there is no obligation to have a collective or enterprise agreement for this purpose and there is no statutory obligation to recruit extra staff.

This is the first time in Austria that the government uses public funds to promote training and educational leave. At the same time the government introduced measures to discourage older employees from early retirement, mainly to alleviate the burden on the State pension funds. The state employment service will have a statutory obligation to help older jobseekers find employment for at least 12 months within the next two years. The scheme is open to women over 55 and men over 60 who have worked a total of 20 years and have been unemployed in the preceding 12 months.

In the UK, the Labour government is envisaging various measures to improve employability and employment incentives to women with family responsibilities, to youth, to low-skilled people and to the long-term unemployed. The « New Deal » for labour is expected to encourage people on welfare to take up work by removing current disincentives in existing social legislation. In its White Paper on workers’ rights, published on 22 May 1998, it proposes to reduce the legally required qualifying period for employee protection against unfair dismissal from two years to one, and to remove of maximum limit to awards by industrial tribunals on unfair dismissals. These measures are expected to provide a better balance between fairness and competitiveness while promoting more commitment from the workforce. The paper’s main thrust is the strengthening of trade union rights, by proposing to grant automatic recognition to unions who represent 40% of the workforce at enterprise level (the threshold of 50% plus one member in the workplace, proposed earlier, was strongly opposed by the unions who feared that several million workers will be thus excluded). The proposal is still contested by some unions who demand 30%, while on the employers’ side, the Confederation of British Industry (CBI), said it would reluctantly accept the government proposal as « workable ». Other measures envisaged in the paper include the protection against discrimination on grounds of trade union membership or non membership and the possibility for workers dismissed for participation in a lawful industrial action to lodge a complaint to a tribunal for unfair dismissal.

Another important step in relation to social dialogue is the ending by the Labour Government of the « opt-out » of the UK from the Social Chapter of the Maastricht Treaty, and the decision to transpose into national legislation the European Works Councils (EWCs) Directive by 15 December 1999, allowing the social partners time to negotiate arrangements in this area. So far more than 100 UK corporations have set up EWCs.

Various policy mixes to improve flexibility and employability have been adopted by other governments. Schematically, some emphasize reductions in public deficits combined with wage moderation or incomes policies, a major effort to reform and improve training, as in the case of Finland and Italy, accompanied in the latter by a subs-

tential reform of collective bargaining; public deficit cuts and social security reforms combined with wage moderation and changes in working time in Belgium; changes in restrictive regulations on employment contracts and termination in Spain. These measures have also been preceded or supplemented by tripartite pacts in a number of European countries including Finland, France, Italy and Spain.

In Belgium, the government took the initiative in spring 1996, to negotiate a tripartite Pact for the Future of Employment, aiming at halving the unemployment by 2000. The tripartite negotiations [5] also covered the reform of the law on competitiveness, budgetary measures in view of the European Monetary Union and a reform of the social security system. However, the failure of the social partners to reach agreement on the basis of the government’s proposals, the government withdrew the initiative and used its special powers to get three framework laws adopted by parliament, respectively to: (a) promote employment while safeguarding business competitiveness, (b) consolidate government finances to meet the EMU requirements (public deficit reduction to 2.9% of GDP in 1997, down from 7% in 1993 to 3.4% in 1996; and 127% of GDP for public debt, reduced from 137% to 130% in the same period); and (c) to modernize the social security system and safeguard the viability of statutory pension schemes.

Also in 1996, the failure of the social partners to conclude a multi-sectoral agreement on the establishment of a maximum wage margin led the Belgian government to unilaterally impose an incomes policy which limits the scope for wage bargaining by the social partners. The law fixes a nominal maximum wage margin for 1997-1998 at 6.1% within which the social partners can negotiate wage increments for the two years. This maximum level is computed from the weighted average of expected pay increases in the three neighbouring countries who are Belgium’s major trading partners - France, Germany and the Netherlands. This innovation is a first step to the emergence of a European wage area. This trend of government intervention in determining the collective bargaining agenda dates back to the 1980s. It is in this context that a 1989 law to safeguard the country’s competitiveness has already entrusted the Central Council of the Economy - where the social partners are represented - to assess the economy’s performance in comparison with its neighbours and recommend necessary corrective measures, to be taken either by the social partners or by the government.

The 1996 legislative package also provides for a statutory reduction of maximum working week from 40 to 39 hours to be introduced in January 1999. To preserve employment and to encourage collective working time reductions, it envisages a reduction in employers’ social security contributions in enterprises undergoing restructuring, with the highest reduction in contributions for an average of 32-hour work week.

The bone of contention in these negotiations was the conflicting demands and expectations of the social partners. The trade union federations FGTB and CSC demanded a trade-off between wage restraint and employment promotion at all levels of negotiations. These included an intersectoral agreement on employment and a wage restraint agreement through the introduction of a 38-hour working week, career breaks, part-time employment and part-time early retirement, improved rights for part-timers and the replacement of overtime by job creation, and the reduction and control of «black labour». At sectoral and enterprise level they called for linking wage moderation to employment measures, notably through redistribution of work. The employers’ organizations were demanding wage controls and greater labour flexibility, while refusing to commit themselves to specific employment targets.

In Finland, the coalition government during the recession years 1991-95 did not take responsibility for employment promotion and was reluctant to support any incomes policy or co-operation with the trade unions. The new « Rainbow Coalition » elected in 1995, was more favourable to social dialogue. Its tight fiscal policy has succeeded in consolidating public finances, but it has had an adverse impact on economic growth and employment. To cope with the situation, the government promised to halve the unemployment by 1999, and targeted vocational training as one method for achieving this. Both the government’s employment programme and the two-year social pact known as the « Incomes Policy Agreement », contain provisions for the funding vocational training schemes and encouraging training to serve industries with high growth potential [6] [10].

In Spain, where a comprehensive tripartite agreement on employment dates back to 1981, and a central pay agreement in 1983 fixed a wage band for pay increases and provided for a reduction of annual working time, calculated on a quarterly basis (rather then the previous weekly basis), to adjust to seasonal variations in demand the government played a major role in the reforms of the labour market. In 1984, a law reforming the Workers’ Statute was adopted, relaxing regulations on the use of fixed term contracts, facilitating dismissals, and promoting functional and geographical mobility. Other legislation multiplied different kinds of « relief » contracts and training contracts for young unemployed people. Further legislation on labour market flexibility was introduced in 1994, when negotiations between the social partners broke down (See also below under Section IV). In 1997, the government relaxed legislation on dismissals and severance pay to encourage open-ended contracts. This measure seemed to be successful with close to 500,000 open-ended contracts concluded in the first six months following the entry into force of the reform (against some 160’000 in 1996) [5].

In Italy, the main political concern over the past few years has been the persistence of inflation, economic slowdown, heavy public deficits and high unemployment. To help the country address these problems as well as to qualify in time for joining the European Economic and Monetary Union, a major concerted effort was necessary, similar to what had been achieved in the early 1980s. The Government played a major role in the concertation
process with the social partners, reaching in 1992 a tripartite agreement with the main trade unions and employers confederations which abolishes the automatic pay indexation system (the « scala mobile ») to help economic recovery through an effective incomes policy. This agreement paved the way for the 1993 central agreement on incomes policy and collective bargaining reform.

The agreement aims at controlling inflation and strengthening the competitiveness and efficiency of both enterprises and of public administration, in order to promote employment opportunities and improve the public spending situation. The agreement revamps the existing collective bargaining system by formally recognizing a two-level articulated bargaining at sectoral and enterprise levels, the former dealing mainly with meso-level issues of collective interest like pay and classifications, the latter being enterprise-specific, dealing with the implementation of the sectoral agreement's provisions at local level, work organization, working time, the introduction of new technologies and pay (for example, linking local pay increments to the company's productivity increase). The agreement contains provisions for government to enact legislation, in consultation with the social partners, on employment promotion and on labour market policy. The measures include regulation to accelerate and simplify the operation of the Wage Guarantee Fund which compensates loss of earnings of temporarily laid off workers, workers on short-time work, « solidarity contracts », and early retirement for workers who can no longer be employed. Other provisions relate to the development of youth employment through apprenticeships contracts and training-cum-work contracts for young people, the updating of the 1923 working time legislation and the regulation of temporary work contracts and temporary work agencies.

These last measures on training and working time seem to have been in abeyance for some time, since the new tripartite employment pact, concluded in September 1996, provides for similar measures to enhance labour market flexibility which were eventually enacted in June 1997. The new legislation, named after the Minister of Labour, legalizes private temporary employment agencies, promotes part-time work by reducing employers' social security contribution (e.g. for young unemployed people, older people, women returning to the labour market and people working on environment protection projects), and proposes that the maximum working week be reduced from 48 to 40 hours. Since working time is determined through collective bargaining, it proposes, in case the social partners fail to reach agreement, to enact legislation to reduce the working week. Government funding is also envisaged to create job opportunities through publicly funded community work (in areas where enterprises have closed down), and subsidies to employers to cover the wages and social contribution of new young recruits in southern Italy where unemployment is particularly high. It also contains measures to encourage companies to leave the « black economy » by granting them amnesty on previous avoidance of payroll taxes and allowing them to pay the workers who were previously undeclared below the national contractual minima, provided they reach pay parity at that level within three years. The new legislation also reforms vocational training aiming at improving the quality of and access to training by young persons and providing incentives to employers to recruit work-cum-training contracts.

In early 1998, the proposed legislation on 35-hour week, to which the government is committed, provoked a highly controversial debate which threatened the existence of the government coalition and the withdrawal of Confindustria, the central employers' confederation, from the incomes policy forum. By April 1998, no legislation has been enacted and the acceptance of Italy among the founding EMU States will probably delay such action.

On the budget deficits front, the Italian government committed itself in 1992 to reduce it from 12% to 3% of GDP by 1997 in order to qualify for membership in the single European currency. It succeeded in achieving this ambitious target. To maintain this momentum, the Economic and Financial Programme Document (DPEF) for 1999-2001, targets a 2.2% reduction in taxation, containing inflation at 1.5% and reducing public deficit to 1% by 2001. To achieve this, the Maastricht criteria state that government debt, which is currently at 110% of GDP, should be reduced at the rate of 2% of GDP per year. The document, adopted by parliament on 17 August 1998, emphasizes the fight against unemployment, targeting the creation of 600,000 jobs over the three-year period so as to reduce unemployment rate from 12.5% to 10%. A special effort will be made in the South where the unemployment rate is said to reach 25%, while the « black economy », the largest in Europe, concerns about one-third of the workforce in the south and about 5 million people in the country as a whole, reflecting a large tax on labour (100% of basic salaries) and inefficient public administration with much red tape. To develop the economy in the south, funds are targeted for infrastructure work and incentives for investment and entrepreneurs, including the possibility for employers to pay lower wages for new recruits, a proposal strongly contested by the unions.2

A bone of contention in the formulation of this economic policy document was the proposed cut in social expenditures as part of the public budget belt-tightening. The unions, while not contesting the need for reform, argued that social expenditure is already lower than the European average and should not be reduced. The budget cuts included in the final text, approved by the social partners, eventually will not affect health expenditures and pensions. (See also Section V below).

In Ireland, the new government, elected in June 1997, made a firm commitment to the central national framework agreement «Partnership 2000 », concluded by the government and the social partners IBEC and ICTU earlier in the year. This is the fourth consecutive pact since 1987, and reflects the broad tripartite consensus on economic and social policies and social partnership at enterprise level. Achieving consensus on macro-economic policies has been the central objective in the negotiation of these programmes, tackling first the public finance crisis in 1987, and reducing national debt and public deficits in 1996 to meet the Maastricht criteria for EMU. The economic performance of the country is impressive. In 1997, GNP grew at 9% while the unemployment rate reached a historic low at 10% (below the EU average of 10.6%) - down from 15.7% in 1993. And this has been achieved with a growing labour force as a result of net immigration and greater female participation rates (participation rates are rather high - 78.7% for men and 47.9% for women in 1995). The increase in female employment was more than

double the increase among men in 1996. Over the decade from 1985, part-time employment doubled, rising from 6.5% to 12.1%. Annual productivity growth has been 3% since the early 1960s1.

In spite of this excellent economic performance, the trade unions considered that insufficient progress has been made to combat unemployment and exclusion, and were debating whether better results could not be achieved outside the social partnership framework. They eventually considered the partnership framework as the most effective instrument. Measures to address unemployment have therefore been a central concern in the tripartite pacts, focusing on training, community jobs, financial incentives for employers to recruit unemployed people, and job counselling [3].

In Portugal, the government decided to take measures to revive social dialogue and the stalled negotiations on collective bargaining and part-time work, by shifting responsibility for monitoring the three-year national Strategic Consultation Agreement from the ministry for Training and Employment to the Ministry of Economics (the unions criticized the former ministry’s handling of negotiations). It decided to reform the methods of work of the national Permanent Committee on Social Dialogue to overcome previous conflicts and accelerate decisions, by inviting the social partners to focus henceforth on matters which have a direct impact on the economy and on employment. Such topics include the forthcoming discussions on a pay guarantee fund, assistance to companies experiencing economic difficulties, tax incentive for job creation, measures to cope with tax evasion and fraud, and membership in the EMU. Tripartite negotiations have witnessed a polarization in the trade union movement when one of the union confederations, the CGTP, refused to sign the tripartite « Short-term Social Consultation Agreement » (ACSCP), signed in 1996 by the government, the main employers’ confederations and UGT, one of the two central trade union confederations. The CGTP, the other trade union, refused to sign, making negotiations of the subsequent Strategic Consultation Agreement (ACE) more difficult to co-ordinate. The main bone of contention was the link between the 40-hour week and increased flexibility in weekly working time introduced by the ACSCP and later enforced by law. The ACSCP provided for a reduction in « effective working time », a new legal concept in Portugal which led to widely different interpretations by all parties concerned, particularly on whether or not to include rest periods in this concept. The CGTP disagreed with the interpretation that eventually prevailed and withdrew from the ACE negotiations. The wide-ranging Strategic Consultation Agreement, signed in December 1996 by the same signatories as the ACSCP, includes measures related to employment promotion, education and training and incomes policy [16].

These examples show many shared concerns among European governments, about price stability, reduction in public deficits and debt, making the economy more competitive and the labour market more performing to cope with the high unemployment. The focus of the policies change over time, particularly with the perspective of the EMU and the relatively high number of countries that qualified for membership (11 out of 15) by May 1998. This, as the examples above illustrated, has been a major factor in the economic and social policies of the countries reviewed. Some of the governments succeeded in developing policy packages through social dialogue, others had at times to take unilateral action, or combining both approaches at different times depending on the prevalent industrial relations climate and institutions.

2.2.2 The trade unions

The change of attitude among wage earners and trade unions towards « flexibility » may be traced to the « humanisation of work » movement, which emerged in the late 1960s and early 1970s in the Nordic countries and Germany. This movement was underpinned by government initiatives, particularly in Germany and France, to promote employee involvement in the workplace. This movement aimed at improving working life, not only by workplace improvements, but also by introducing more diversified lifestyles, allowing individuals to have free choice to alternate work, training and leisure or reconciling work with family responsibilities. While this freedom of choice was underpinned by the post-World War II economic growth, it paved the way for accepting departures from the full-time permanent standard model of employment in times of recession and persistent unemployment. Demands for important reduction in working time can be traced to this period but were also seen as a way to absorb the negative employment impact of the industrial restructuring that followed the oil shocks in the 1970s and the globalization of production and the resulting acute competition in the 1980s and 1990s. The awareness of the crisis and the shift of the balance of power in labour relations towards management in the context of globalization and deregulation was a major factor in the reluctant acceptance among trade unions of the need to adapt the « European social model » while preserving core social rights.

This change of attitude about the on the need for trade unions to adapt to the new rules of the game is reflected by the views recently expressed by Bill Jordan, the Secretary General of the biggest international trade union confederation, the ICFTU, represented in 141 countries. He considers that it is imperative « to balance workers’ desire for security in employment with the constant pressure from the market on employers to adapt quickly and efficiently to changes in technology and trade. [... ] Just as companies need to understand workers’ fears and look for ways to meet their aspiration for predictability in their employment contract, so workers and their unions have to come to terms with the fact that companies that do not change get left behind and die. Continuous product and process innovation is part of the reality of the global market, and comparative advantage lies with those companies that are best able to manage innovation. The most difficult challenge for management, however, is not in fact generating new ideas but translating them into the organization of work ». In this context, he considers social dialogue and collective bargaining as the most appropriate instrument to help labour and management to adapt to the new rules of the game: « Tripartite institutions are vital to dealing with the national dimensions of change, including training and education. Company and plant level bargaining is the key to the smooth adaptation of employment within the enterprise. Local and regional co-operation initiatives are essential to avoiding widening gaps between job opportunities in different parts of the country. » [8].

This is a major departure from the trade unions views during the early stages of the debate, when most of them considered labour market flexibility as an anathema, threatening social progress achieved since the beginning of the century. However, faced with mass redundancies in the wake of company closures and restructuring, and persistent and rising unemployment - unions have come to recognize that a degree of flexibility was unavoidable to save jobs, let alone to create new ones, and started negotiating at various levels measures to enhance job security and training opportunities by making concessions in terms of work practices, pay, status and types of acceptable contracts, working time and work organization. The degree of acceptance of the need to enhance productivity and enterprise competitiveness varies among unions within and among European countries, and their attitudes also evolve with time. Some examples below illustrate this change.

Thus for instance, wage moderation which characterized the bargaining outcomes in most European countries between 1994 and 1997, was associated with attempts to secure a trade-off between moderate pay increases and job creation. As mentioned earlier, social pacts including incomes policy measures were negotiated at central level, for example, in Finland, Ireland, Italy, Portugal and Spain and wage moderation to maintain jobs were negotiated in some sectoral and a number of enterprise agreements in a number of countries, including France, Germany, Italy and the UK.

In Germany, the prevailing consensus model which underpins the Social Market Economy, does not preclude strife in the adjustment to the severe job crisis, further aggravated by the unification in 1990. Certain aspects of flexibility were strongly resisted for many years by the unions, but in the face of the persisting crisis they have been negotiated and included in sectoral or enterprise agreements, sometimes requiring also legislative changes.

The Confederation of German Trade Unions, DGB, has been extensively discussing the future direction of collective bargaining, particularly in view of achieving employment objectives, expressing readiness to engage in bargaining to maintain and create jobs while at the same time ensuring the competitiveness of enterprises. The DGB Congress, which met in Dresden in November 1996, resolved that general collective agreements ("Flächentarifverträge") should take account of "diverse needs of employees and the structure and prevalent conditions in the individual sectors and companies concerned." The DGB has gradually adopted a proactive approach to labour market reforms in order to come to grips with the record level of unemployment. The DGB chairman, Dieter Schulte, recently acknowledged that the unions are now willing to accept, in return for job security, measures which would have been rejected five or ten years ago, such as the "annualization" of working time (e.g. calculating it on an annual basis), working on Saturdays and Sundays, extending shop-opening hours, time-off to compensate for overtime (in lieu of pay), pay restraint or flexibility, part-time and sabbaticals, adjusting working time to fluctuation in business demands and shortening working life via gradual early retirement. Moreover, the dramatic changes in the economic situation in the West German Länder and the significant growth of contingent workers not covered by collective agreements. He therefore called for efforts to extend collective agreement coverage to workers in "non-standard" jobs hitherto excluded (home workers, temporary workers, pseudo self-employed workers whose numbers are increasing). This will enable the trade unions to keep in touch with new characteristics of the labour market and to regain membership.

But this attitude is not universally accepted by all the sectoral unions or it is evolving over time. Thus for instance, acceptance of wage moderation was evident in the current bargaining round by IG Chemie - the chemical workers union - and the mining and energy unions. Reversing previous conciliatory stance, particularly in the wage negotiations in the Eastern Länder where unemployment is very high and wages and productivity levels much lower than in the Western Länder, the powerful metal trades union IG Metall, is now strongly opposed to further wage concessions. Klaus Zwieckel, IG Metall chairman, recently announced the end wage moderation in 1998, following the good performance in productivity and exports, high profits and high returns on shares.

In Austria, the Confederation of Austrian Trade Unions, OGB, acknowledged that unions must adapt collective agreements where enterprises and sector suffer important losses due to substantial changes in the markets. In cases of such unions much more acceptable to employers, but also take into account the economic situation of the enterprise or sector concerned. In this context, the OGB considers as a basic principle for innovation and reform that the negotiating committee be granted sufficient scope for formulating unconventional pay agreements, and the subsequent evaluation of its implementation should lead to changes, where necessary.

In Spain, the unions have recently accepted far-reaching changes in legislation on dismissals and severance pay in order to reverse the very acute job crisis and encourage employers to recruit. Indeed, in spite of the high growth rate (above 3%) - among the fastest in the EU - the proportion of jobless is almost 21%, double the EU average (youth unemployment is about 40% for the 16 to 24 age group) and an estimated third of all current employment contracts are on a fixed term basis. The rigidities of the labour market are blamed for this poor performance. Reference was already made to the positive employment outcome of the "Social Pact" reached in 1997 (Cf. under II(a) (i) above).

In the United Kingdom, the most liberal labour market in the EU, the Trades Union Congress (TUC), is sounding the alarm bell about the UK lacklustre record on productivity, investment and growth as compared with France and Germany. In a report on "Productivity and Social Partnership", published on 23 April 1998 to coincide with the G8 Trade Union Summit meeting, the TUC points out that productivity growth was achieved in the UK by longer hours (9% more than in Germany and 5% more than in France) rather than by increased efficiency, with productivity levels per hour worked in the UK ranking the second lowest among the Seven most industrialised countries and 20% lower than in France and Germany. To overcome this discrepancy and develop an efficient

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forward-looking economy, based on investment in people and combining greater efficiency with greater fairness, the TUC calls for social partnership, within and outside the workplace, and the strengthening of collective bargaining. It considers among the priorities for action in this area: (a) the formulation of a new approach to the relationships between employers, workers and their unions, based on identifying areas where joint action is possible and where problems can be solved together; (b) the promotion and diffusion of best practice on innovation, indicating areas where the most performing UK companies are successfully managing change which is conducive to high productivity/high wage competitive workplaces; (c) invest in skills and lifelong learning, including measures to strengthen employer support for training, training plans for staff, providing time-off for training and using the Government’s £ 2 million Employee Education Fund to support trade union innovation in training. It also calls on the government to support efforts to increase the share of investment in national income, which at 16.6% of GDP last year, was the lowest among the large industrialized countries). 1

This is a significant departure from the past of adversarial labour relations. At the sectoral level, the Union of Shop, Distributive and Allied Workers (USDAW) takes stock of the need to adapt to a changing world, and like the German DGB, underlines the need to appeal to an increasingly wider range of working people, the so-called « flexible » contingent workforce, whose interests may be different from those in the « core » labour force.

The above examples indicate a major change of attitude among unions in most European countries and a desire to cope with the new realities of the labour market. In some cases, though, these examples also illustrate divergent attitudes among unions within countries either at central level, as in the case of Portugal, or at sectoral level, in Germany. In a number of countries employers’ organizations have very strongly reacted to trade union demands to reduce working hours particularly with a view to redistributing work, preserving or even creating jobs. The strongest reaction was probably manifested against the demand for a 35-hour week, launched in France and backed by the Socialist government, which stimulated similar demands by unions in Italy and Spain, eliciting similar objections from employers’ organizations. As already noted, the French central organization of employers (CNPF), re-named MEDEF in October 1998, and the metal trades and mining federation (UIMM) have vehemently opposed the proposed legislation. Following the announcement by the government, at the national tripartite symposium on employment in October 1997, that it intends to go ahead with the legislation, the Chairman of the CNPF felt compelled to resign.

This massive and consistent opposition has not precluded individual companies from reaching agreements in this area, going even beyond the 35-hour limit, mostly without loss of pay and resulting in preserving and even creating jobs. (For a review of the outcome of the Robien Law see below Section V).

Eventually the UIMM and three trade union confederations – FO, CFE-CGC and CFTC – concluded on 28 July 1998 a very controversial agreement on the introduction of a 35-hour week. The agreement increased the number of authorized annual overtime and extended the number of workers who can be paid on a fixed-rate basis, regardless of the actual weekly working time. The agreement does not provide for job creation and has not been signed by the two trade union confederations who represent the majority of the workforce in the sector – CFDT and CGT. The latter criticized the agreement because it felt it runs counter the basic objective of the Aubry Law, namely to reduce working time in order to create jobs. Martine Aubry, the Minister of Employment and Solidarity qualified the deal as a “virtual agreement”, ideologically motivated, and said she will refuse its extension. 2 This agreement did not however stop fruitful negotiations and the conclusions of a number of agreements on working time reduction and job creation in such sectors as textiles, public works, civil engineering, craft trades and banking. Many small scale enterprises have also concluded such agreements. 3

The main argument against a generalized 35-hour week was that it will increase labour costs - as trade union demands usually do not include proportional reduction in pay - which will undermine companies’ competitiveness and will therefore threaten jobs. Moreover, across the board implementation of the law will be problematic in labour intensive industries and services and in small and medium size enterprises (SMEs) - which may hinder their high potential for job creation.

In Italy, the government coalition was at risk on this issue from its left wing parties who recently resumed their membership in the coalition on the promise that legislation on this subject be enacted. The employers’ federation, Confindustria, for its part estimated that such legislation could cause 500’000 job losses because of increased

labour costs, and threatened to withdraw from the 1993 and 1996 tripartite agreements on incomes policy if legislation went ahead. So far, the successful implementation of these two agreements has been the key to reduced industrial strife in Italy and contributed to check inflation, a priority for the government.

In Belgium, as already indicated, the negotiations of an employment pact failed in 1996 because no common ground could be found between the employers and the unions on linking pay moderation to job creation measures, particularly through the introduction of a 38-hour week and a cut in overtime.

The employers’ federation in Portugal, CIP, criticized the government for not abiding by the provisions of the pact signed by the social partners at the end of 1996, by including rest breaks in the 40-hour week which had to be implemented by the end of 1997. The CIP accepted the reduction in weekly working time without loss of pay on condition that the 40-hour week could be averaged over a period of four months, providing for multi-skilling to facilitate staff upgrading, and linking the reduced week to the transposition of the EU Working time Directive in national legislation.

In Finland, where centralized collective agreements have dominated the bargaining scene since the early 1960s, the recession of the 1990s has led the employers’ organizations to seek decentralized wage bargaining and more flexibility in pay and working time determination. While they object to working time reduction, they are willing to pursue work-sharing through the use of part-time and atypical forms of employment.

The employers’ federations in Germany are mainly interested in making sectoral collective agreements more flexible and open, with a considerable leeway to settle certain issues at company levels. This has been an important question in the current public debate on the future of the existing industrial relations system based on regional sectoral « general collective agreements ». Hans-Olaf Henkel, the chairman of the Confederation of German Industry (BDI), went as far as to recently qualify the German sectoral wage bargaining system as outdated and unnecessary in the context of the prevailing industrial peace. He points to the limits of the generalized wage fixing method which provides the same pay increments in a cutting-edge electronics or machine-tools company, a big multinational firm and an SME. He considers that competitiveness of German firms is conditioned by wage moderation, which is the prerequisite for job creation. He also criticizes the French and German Socialists’ proposals for special youth job-creation schemes because they address the symptoms and not the cause of the ills, and they do not provide durable jobs.

Arguably, German wages are the highest among industrialized countries, and, in 1996 they were 88% higher than in the US and about 40% higher than the European average, as expressed in US dollar terms. However, the gap between US and Germany manufacturing wages may be significantly overstated if account is taken of the productivity growth, the very modest wage increments and the favourable position of the D-mark vs. the dollar. Indeed, the argument for wage moderation comes at a time of very low wage settlements at about 1.5% this year, productivity per employee increased by 3.7% of GDP in 1997 (and 6.7% in manufacturing) up from 2.2% in 1996 and 0.6% in 1993, average unit labour cost declined by 1.8% in 1997 - the sharpest decline since 1990 - while net income from employment has actually fallen by between 0.4% and close to 2% according to different estimates. The Federal Labour Ministry’s latest collective bargaining report also indicates a slowdown in pay growth in 1997 (1.5% in the West and 1.9% in the East) mainly due to cuts in bonus payments, especially Christmas bonus, to compensate for the 100% sick pay (in lieu of the reduced rate of 80% decided by the government last Autumn and strongly contested by the unions). Agreement also include « opening clauses » at enterprise level, allowing the parties to agree reductions of up to 10% from the sectoral collectively agreed pay levels, as well as allowing reductions in working time with corresponding pay cuts in cases of economic difficulties. As regards enterprise flexibility, German firms appear to enjoy much more leeway than is usually assumed (See below, Section VI). Moreover, while sectoral agreements are predominant, enterprise agreements have been rising fast and doubled since 1990 (over 45’000 such agreements are now in existence)

It is against this backdrop and the persistent high unemployment - the figure nears 5 million people - that Chancellor Kohl has called on German employers last April, to show greater « social responsibility » and hire more people. Earlier in the year he urged the country’s powerful trade unions and employers’ organizations to conclude more flexible agreements to facilitate the return to work of the record number of unemployed.

But not all the employers share Olaf-Henckel’s outspoken views. Dieter Hundt, president of the German Employers federation (BDA) - who is the social partner in collective bargaining - wants to abide by the sectoral wage fixing system, although acknowledging the need for reform in conjunction with the trade unions.

The Union of Industrial and Employers’ Confederations of Europe, UNICE, deplores in a recent report on European competitiveness, the slow and insufficient action that has been taken to address the causes of declining competitiveness in the politically sensitive but vital areas of structural and regulatory reforms. In the introductory remarks, François Perigot, UNICE’s president, notes that the concept of competitiveness remains largely unexplained or misrepresented and continues to be the subject of a sterile debate which « confuses symptoms with the causes, problems with remedies, and opportunities with risks ». To move a step further from diagnostic to action, the paper proposes twenty benchmarks for comparing business performance in OECD countries, and offers some insights into business environments that are either conducive to or hampering growth and employment. Its diagnostic of the ills and recommendations for remedial action are very close to those noted above in the OECD Jobs Study and related strategy.

It sees in the completion of the Single Market a positive outcome for growth and employment through enhanced competition, efficiency and productivity and a greater convergence of living standards in the less developed EU economies. A stable and predictable macroeconomic environment is essential for improved competitiveness and growth and hence the need to maintain price stability, to reduce budget deficits and to maintain sound public finances, in line with the Maastricht criteria. It stigmatizes the high cost of key services and inputs to industry, such as energy, transport and telecommunications, as compared to the US. This price differential reflects insufficient competition in the EU which can only be corrected by accelerated liberalization of services and the elimination of distorting State subsidies. At the same time, R&D corporate expenditure as a share of GDP amounted to 2% in the EU - below the US and Japan (2.7% and 2.9% respectively), while expenditure on information and communications technologies (ICT) corresponded to 4.5% of GDP in Europe, significantly lower than in the US (5.7%). To illustrate the gap, it notes that in the US there are more than 400 computers per 1000 people against less than 200 in France, Germany and Italy. It calls on governments and the EU to facilitate investments in these fields by providing a more supportive framework for national and transnational projects, by trying to formulate a coherent research and innovation policy focusing on few priority areas and facilitating inter-enterprise co-operation and technology transfers.

High public expenditures, amounting to almost half of EU GDP (as compared to about a third in the US and Japan), misallocate important resources away from productive investment to public consumption, social transfers and subsidies, while the share of public investment in GDP is below 3% and declining. This has a major adverse effect on enterprise competitiveness. Ireland is cited as the only EU country which has successfully performed in terms of growth, employment and economic convergence, and its public expenditure stands at 37.6% of GDP, close to the benchmark set by the US (below 33%). High public expenditures imply high taxation, and in 1996 the total tax revenues, including social security charges, are estimated to average 42.5% of EU GDP. Arguably, Ireland, the UK, Portugal and Spain have managed to achieve a ratio below the OECD average of 37.5% in 1995.

Public sector employment, which constitutes around 18% of total employment in most EU countries (somewhat lower ratios exist in declining order, in Ireland, Germany, Spain, UK, the Netherlands and Greece), displaces private sector activities and contributes to heavy tax burdens on business. The most significant increase in public expenditure since 1960 has been the expansion of social transfers, to finance public pension, unemployment and other welfare benefits and subsidies. While a growing section of the population is dependent on income from public funding, the problem is compounded by the ageing population and the generally lower level of participation rates in the labour force as compared to the US and Japan. A growing imbalance thus emerges between the public expenditure on transfers and the State’s financing capacity - pension liabilities are already greater than government debt in France and Germany. UNICE therefore recommends a reform of the social transfers to reduce their cost and increase their effectiveness via more private provision and individual responsibility.

High non-wage costs in EU, amounting on average to 57% of total labour costs in the EU, the highest among industrialized countries, constitute one of the most significant factors penalizing European business by adding 80% to wage costs against less than 40% in the US, underlining competitiveness and job growth. The widening gaps between the total cost of labour for employers and disposable income for employees (« Tax wedge on labour ») reduce incentives to recruit and to engage in work.

As regards employment promotion, UNICE criticizes government strategies to reduce working time to fight unemployment, pointing out that the average number of working hours in Europe is already much lower than in other industrialized countries (close to 1600 hours in Italy, Austria, France, Denmark, Belgium, Sweden and the Netherlands, approaching 1500 in Germany, but close to 1800 in the UK, Ireland, Greece and Spain), while longer hours have been associated with a better employment record in Japan and the US (surpassing 2 000 hours in the US, well above the EU’s 1700 hours in 1992), is not believed that the reduction of working time can reduce unemployment, it cautions against a resulting reduction in overall employment and living standards.

Excessively strict employment protection legislation needs to be overhauled, particularly regulations on hiring and firing, which it considers as hampering companies from adjusting their labour force to fluctuations in demand. It cites the Spanish example as evidence of the positive employment impact of the relaxation of rules in this area. Restrictions on shop opening hours constitute another barrier to job creation, by reducing consumer choice and spending, particularly in Austria and Germany, as compared to the UK. However, in the comparative table it provides on shop opening hours, the UK has the same weekly hours (96) as Spain, Sweden and France. Other labour market reforms recommended by the UNICE include incentives to increase the participation of women and young people in the labour force, i.a. through training, reforming taxation and unemployment benefits to make the return to work more attractive, and extending the use of more flexible forms of employment, such as fixed-term, temporary and part-time work. It notes that the significant increase in employment in the UK and the Netherlands over the past decade coincided with more flexible forms of employment, particularly part-time work.

With regard to social policy matters and social dialogue at the European level, UNICE has consistently maintained its preference for leaving social matters to national collective bargaining or legislation. Many European Commission initiatives in the social policy area and the attempts to increase the Commissions supranational decision-making powers were drastically limited by the combined opposition of governments and employers. A good illustration of the lingering debate on social policy issues, including those related to information and consultation, working conditions, employment contracts, the organization of working time, and employment relationships involving distortion of competition, is given in a recent feature article of the European Industrial Relations Review. Wolfgang Streek surveyed UNICE’s role in the areas of social policy and social dialogue and noted the very limited outcomes, mostly limited to non-binding opinions or accepting directives which do not significantly change existing national legislation. Streek fears that the new codecision powers given to the social partners by the Maastricht Treaty at the European level (see below Section VI) may be used to delay or prevent legislation while neither the unions nor the European Commission have the capacity to improve the situation. He reviews
numerous examples which underpin his conclusions, among which he mentions the European Commission’s proposals for directives respectively on Company Statute (1970), the draft Fifth Directive on Company Law (1972, revised in 1983) and the « Vredeling Proposal » on information and consultation of workers (1980, revised 1983)\(^1\), which were defeated by the combined opposition from employers and the British Conservative Government.

To these examples one could add the refusal by UNICE, announced on 16 March 1998, to negotiate at European level an agreement on information and consultation at national level, considering that this is a matter for decision or negotiation at local level as far as national companies are concerned. For UNICE new regulation is unnecessary as the matter is adequately dealt with in existing directives, containing provisions on information and consultation where European-level intervention is justified, namely in case of collective redundancies and transfer of undertakings. Moreover, the European Works Councils (EWCs) Directive already contains information and consultation provisions for multinational enterprises. UNICE’s decision was announced after a second extension of the consultation period on this subject launched by the European Commission.

The EU Commission President, Jack Santer, said that UNICE’s refusal is a blow to social dialogue. In any event, the Commission announced that failing an agreement among the social partners it will proceed with legislation (viz., introducing a directive). Earlier on, the public sector employers’ organization CEEP, and the European Trade Union Confederation ETUC, indicated their willingness to enter negotiations on this subject. A recent change of attitude among the German and the UK government as well as some major UK companies towards the proposals on company statute and in particular on the issue of worker representation/consultation may, however, tilt the balance in favour of an agreement on a Directive on the European company Statute in early June\(^2\).

But this somewhat negative picture on the European social policy front must be qualified by some recent positive outcomes of Euro-dialogue. UNICE has participated in the negotiation which resulted in two joint agreements with CEEP and ETUC on parental leave (1995) and part-time work (1997). These have now been incorporated in EU Directives (see also Section VI) and further negotiations are now starting on other « atypical » forms of employment.

Moreover, multinational companies have positively responded to the requirements of the Directive on European Works Councils, well in advance of its entry into force in September 1996 for EU member States, and December 1999 for the UK. According to the European Trade Union Institute’s (ETUI) data base on EWCs\(^3\), of the 1200 companies concerned by the Directive, 415 have established an EWCs before September 1996, including a significant number of some 114 UK multinationals - in spite of the UK opt-out from the Directive. With the recent ending of the UK opt-out, the Directive was extended to the UK on 15 December 1997. It will come into force by December 1999, giving a further 125 UK companies that will now be covered the opportunity to negotiate voluntary agreements on information and consultation. Some companies have several agreements on EWCs and some 300 companies have at least one agreement. Many leading French multinationals, such as Pechiney and Saint-Gobain, played a pioneering role in setting up in the early 1980s EWCs, followed more recently by many others in France, Belgium and Germany (for example, Mercedes, Bayer, Thyssen). With the extension of the Directive to the European Economic Area (EEA) in 1995, companies in Iceland and Norway are also covered. The implementation of the Directive has been done in close co-operation with the national social partners, and the ETUC notes that while prior to its adoption in 1994, the employers have strongly objected to it, a consensus seems to have evolved on its acceptance throughout the EEA, transcending political divisions\(^4\). The « Davignon Report » dealing with European systems of worker involvement related to the current debate on the European Company Statute, also notes that « Community law today lays down a certain number of rules in this field (viz., information and consultation of workers), which are largely consensual. » However, it goes on stating that « By contrast, the simple mention of rules on worker participation in company bodies, even in the context of optional instruments (which include the European Company Statute), has never achieved the required majority within the Council»\(^5\).

3 Constraints to social dialogue in a globalized economy

Major changes in the world economy, encapsulated in the terms « globalization and deregulation » weaken the existing industrial relations structures which are normally taking place within national boundaries. This includes the reduced policy autonomy of governments as well as the weakening of the social partners and the institutional framework for social dialogue. The shift towards decentralized collective bargaining in many cases, the emergence of multinational companies and the progress in European integration are all factors that put constraints on social dialogue at national and sectoral levels.

Globalization, deregulation and technological change have reduced national policy autonomy and have increasingly prompted governments to transfer to enterprises many functions they previously performed at the national level, thereby increasing enterprises’ autonomy. Also as a result of globalization, enterprises are less able and willing to sustain their share in financing the Welfare State than was the case when economies were less open and capital less mobile. The negative impact on social dialogue has been underlined by the ILO World Labour Report 1997-1998 which noted that « one main implication of capital mobility is to undermine social compromise, the

\(^1\) For a detailed discussion of these proposals and UNICE’s reaction see: Hedva Sarefati and Jacques Monat: Workers’ participation: A voice in decisions, 1981-85, ILO, Geneva, 1986, pp.72-79.
\(^3\) Information provided by Peter Kerckhofs, Multinationals Database, Inventory of Companies affected by the EWC Directive, European Trade Union Institute, Brussels, on 28 May 1998.
« implicit contract » - shaped essentially by national post-war industrial relations systems [...] - under which workers’ pay and benefits steadily improved in return for labour peace and loyalty. »

One characteristic of the globalization process is the rapid growth of global multinational enterprises (MNCs). Their integrated production structure transcends national boundaries, involving major economic and business decisions which fall outside the traditional structures for dialogue. MNCs thus increasingly challenge the traditional industrial relations structures and collective bargaining, which evolved within national contexts among autonomous companies affiliated to sectoral and national employers’ organizations. MNCs emphasis on human resources management practices, focusing on the individual employee’s performance and rewards, also challenges collective approaches to the employment relationship.

The Globalization of production and the accompanying company restructuring, resulted in some sectors, like the automobile sector, in more standardization of production and greater homogeneity of models and components. This enables manufacturers to shift relatively quickly and with much greater ease their production from one country to another where costs are lower and labour more flexible. Or, alternatively, to have plants in different countries, even within the EU, compete on pay, jobs and/or investment and even the sheer survival of the plant (the most recent example is the GM’s Vauxhall plant in the UK). It tipped the balance of power in the labour relations area towards management. Ample examples have recently been given to this development among major car manufacturers, particularly, Ford, General Motors - and its European subsidiary OPEL -, VW and Mercedes.

But for dialogue to take place there should be independent social actors and an articulate system for consultation and negotiation. A serious challenge to social dialogue stems from the growing weakness of both unions and employers’ organizations, adversely affected by the trend towards decentralized bargaining to enterprise level and the growth of multinational companies which by-pass the traditional national forum and institutional framework for collective bargaining.

The changes in the world economy, in technology and in the organization of companies have significantly weakened the trade union movement the world over, with only very few exceptions. This trend is aggravated in industrialized countries by such factors as: (i) the shift from manufacturing, where the union movement grew and became powerful, to services which are more difficult to organize; (ii) the growing diversity of interests of different groups in the workforce (such as women, youth, older workers, migrants and contingent workers); (iii) the increasing segmentation of the labour force characterized by the coexistence at the same workplace of different employment statuses implying different terms and conditions of employment and differentiated work schedules, and hence different interests ; (iv) the development of individual employment relationship for the highly educated and skilled « knowledge workers »; (v) the growing number of people excluded from the labour market (the unemployed or those employed in the informal sector of the economy). The decline of the trade unions and the reasons for it have been extensively documented.²

The traditional structures of collective bargaining have not kept pace with recent developments in response to the employment crisis and are therefore require adjustment on behalf of the trade unions (the same problem apply to employers’ organizations). Such a situation may arise where there are two levels negotiations - at sectoral and enterprise level and where the representation of wage earners is different in these levels. As is the case in Germany and Italy for example. A related problem which became manifest in the flexibility debate, is the coverage of small and medium enterprises which do not have representative wage earners organizations, who may be required to negotiate agreements to benefit from State subsidies for employment promotion measures, as in the case of France under the Robien law. New arrangements need to be worked out for this purpose.

In Germany, for example, the traditional division of labour among wage earners’ representative bodies at sectoral and enterprise levels is being blurred. The trade unions are responsible for the negotiation of sectoral/regional collective agreements, which determine wage increments, wage structure and job classifications, as well as other conditions of employment (such as working time, overtime, leave, special conditions recruitment and termination), but , in some sectors, such as the automobile industry, they also negotiate enterprise agreements. At enterprise level, wage earners are represented in the two codetermination bodies, the works councils and the supervisory boards. The works councils are responsible for the determination of work organization, overtime and pay systems, as well as for regulating problems related to enterprise restructuring and « social plans » to address redundancies, topics on which enterprise collective agreements are concluded. As the employment crisis and enterprise restructuring gained momentum, the overlapping responsibilities became more evident in areas where works councils have been increasingly called upon to act. Agreements on trade-offs in terms of working time arrangements to save jobs can only be reached at enterprise level. Moreover, the recently increasing use of « opening clauses » which allow companies to deviate from sectorally agreed pay levels, contributes to further decentralization. As Danielle Kaisercruger[9] says, decentralization of bargaining is the price which the unions have to pay for safeguarding their « bargaining autonomy » (i.e. the exclusive right of the social partners, enshrined in the Constitution, to determine pay and working conditions).

Kaisercruger also describes how a new structure to represent the wage earners at enterprise level have evolved in Italy, with the emergence in the early 1990s of the RSUs, the so-called Unitary Trade Union Representation. RSUs bodies are elected by the wage earners of an enterprise and represent the whole workforce, whether or not unionized, but a third of the elected members is attributed to the unions who concluded the relevant sectoral collective agreement. They engage in collective bargaining at enterprise or plant level - within the framework of sectoral agreements concluded by the main trade union confederations - on pay, productivity and quality improvement. They share this capacity to negotiate with the local and regional unions. However, they have an exclusive right as regards information and participation and represent the wage earners on enterprise joint committees dealing with a wide range of issues such as working conditions, equality of opportunity and training. They play an increasingly

important role in the « articulated » negotiations which were developed in the 1993 and 1996 Tripartite Pacts mentioned earlier 1.

Employers’ organizations face similar problems of representability, on the one hand, because small- and medium-size enterprises, which constitute a significant part of the business community, are not members of central employers’ organizations and tend to remain outside the scope of collective bargaining; on the other hand, these organizations bring together businesses and economic sectors whose diversity of interests and concerns, as well as size, pose a serious limitation on their capacity to be the voice of management in collective bargaining and social dialogue, particularly in the context of growing decentralization of collective bargaining already noted. It may be interesting to note that this issue of representativity combined with the inability of the existing employers’ organization to enforce on their members decisions reached by collective bargaining was one of the main difficulties in solving the tough road haulage conflict in France in autumn 1997. This conflict has shown the growing importance of the European dimension, besides the difficulties of a sector characterized by some big and many small and very small companies where competition is acute. Another indicator of the need for central organizations to come closer to enterprise realities is the positive response in by a significant number of French enterprises, both big and small, across the spectrum of economic sectors, to the reduction of working time under the Robien law, and the differing sectoral employers reaction to the proposed 35-hour legislation which were strongly opposed by the CNPF (renamed in October 1998 MEDEF – the Movement of Enterprises in France) and UIMM.

Within enterprises, as already noted, the changes in production and work processes associated with the introduction of new technologies and globalization, have brought about major changes in job profiles, reducing job demarcations, broadening job definitions, developing multi-skilled job profiles and expanding autonomous team and group-work. These developments have drastically changed industrial work from the earlier mass production model. These new job profiles which characterize functional flexibility, require better communications, less hierarchical structures, staff motivation and commitment and continuing opportunities for retraining. To achieve these objectives, management has developed human resources strategies (HRM) which focus on the individual employee, developing communication channels between staff and management, emphasizing training and skill upgrading, increasing staff involvement in problem-solving and decision-making and adapting pay to performance. This approach changes substantially the traditional social relationship at the workplace, challenging the traditional job control by unions and leaving little room to collective regulation by traditional industrial relations structures. It is therefore not surprising that a number of European trade unions have viewed direct participation measures as a threat, but this is changing, as noted above in Section II (a), p. 10.

However, in countries where labour relations are based on consensus and where workers and unions enjoy rights to consultation or codetermination, HRM strategies have been adopted in collaboration with the unions. In Germany and Sweden, for example, consultation and codetermination rights are guaranteed by the law and backed by collective agreements (sectoral or at enterprise level). In Germany, HRM policies relating to pay flexibility, enterprise-based training, labour-management communications, working time arrangements, teamwork and decentralization tend to be handled through the works council (whereas collective bargaining on pay and conditions is handled by sectoral employers organizations and unions).

The last constraint considered in this paper is the process of European regional integration. The objective of economic and financial convergence endorsed in the Maastricht Treaty, imposes stringent reductions of public deficits and public debt on EU member States, which will limit the scope of their autonomy in fiscal and monetary policies, curtailing public spending and reducing the scope for supportive measures to promote employment. The convergence criteria also significantly limit union bargaining strategies, resulting invariably in a generalized wage moderation since 1995 (around 1.2% below labour productivity increase)2. At the same time, David Shepherd, from the UK Industrial Relations Service3, cautions against the belief that EMU will produce convergence of wage rates across Europe. He thinks it will result in more pressure to introduce labour reforms in the drive for efficiency and competitiveness, accompanied by restructuring and rationalization, which are likely to result in widening pay differentials among countries, as they have done within countries, and increased pressure by companies for wage flexibility. Professor Horst Siebert4, director of the Kiel Institute of World Economics and a member of the German government’s Council of Economic Advisers, comparing the divergent levels of labour productivity among the 11 founding States of the EMU, cautions against trade union initiatives to achieve European-level wage setting, because this will increase unemployment. In his view, different productivity levels require decentralized wage-setting at regional and company levels. By the same token he feels that the diverging productivity levels also run counter harmonization of social security systems. In contrast, Deutsche Bank and Towers Perrin5, the management consultants, note in a survey of 200 European multinationals, that almost half of them think that EMU will lead to pan-European pay agreements and levels, but only 42% expect that it will result in the harmonization of social security provision.

The forthcoming creation of the European Economic and Monetary Union (EMU), with the launching of the common currency in 11 out of the fifteen member States on 1 January 1999 (finally endorsed on 2 May 1998) will put an end to governments’ power to use devaluation or heavy public spending to tackle high unemployment. In a number of EU member States the social actors had a say in macro-economic policy formulation, particularly within the framework of incomes policies and social pacts agreed nationally. To restore a voice at the European level, both the attitudes of social partners and the institutional framework would have to be developed.

1. Ibid., Chapter 5.
So far, much was said about promoting social dialogue to enhance employment at the European level, resounding declarations and policy papers have abounded on the importance of competitiveness and employment growth, but little has been translated into effective and enforceable action. The failed initiative by Jacques Santer, the President of the EU Commission, in January 1996, to introduce a European Confidence Pact for Employment, raised high expectations among trade unions, but was not approved by member States. The two recent joint agreements on parental leave and on part-time work which led to two European directives may be indicative of a new development, but will this swallow make a summer? The Jobs Summit of Luxembourg in November 1997 also endorsed priorities for employment promotion in the implementation of which the social actors have an acknowledged role. Moreover, at sectoral level, notably in the commerce and distribution sector, social dialogue has been going on for over a decade. Also, over the past two years some form of social dialogue has taken place among the social partners in the chemical industry in France, Italy and Spain, hailed by some as a beginning of European sectoral bargaining (See below in Section V).

European bargaining would require co-ordination of strategies within the trade unions and employers’ organizations, besides the setting up of appropriate institutional framework for this purpose. If such development takes place it will probably materialize at sectoral level. However, the trend towards decentralization of collective bargaining to enterprise level in a number of EU countries, is increasing diversification of outcomes of negotiations both among and within countries, which may hinder such co-ordination. Moreover, while multi-employer bargaining, associated with the extension of coverage of collective agreements and sectoral or central bargaining, has characterized most European countries, with the exception of the UK, where single-employer bargaining has prevailed and there are no provisions for the extension of collective agreement coverage. The implementation of the Directive on European Works Councils, which does not require a sophisticated organizing capacity from the social partners, may however result in the institutionalization of single-employer bargaining in Europe, eroding solidarity among wage earners and weakening the power of unions. In such a context, the co-ordination of bargaining strategies might also prove difficult.

On the other hand, since sectoral bargaining is quite common in most EU countries, they could in future evolve to the European level if employers’ federations develop appropriate structures for it. On the employers’ side, not all the European sectoral business associations are employers’ organizations and would therefore not qualify for engaging in collective bargaining. Moreover, some national sectoral business organizations are not represented in their national employers’ organizations and therefore feel that UNICE does not represent their sector, as in the case of the Austrian employers organization for the commerce sector. On the trade union side, the main sectoral trade union representative bodies are members of ETUC (i.e. in the metal trades, commerce and distribution, public service, post and telecommunications, etc.)

The various forms of co-ordination of collective bargaining at central level, which exist in most EU countries could also contribute towards the development of European institutional arrangements. As Franz Traxler [20] observes, some sort of macro-level co-ordination of bargaining takes place in the majority of the OECD countries. He identifies five co-ordination patterns in Europe, namely: inter-associational co-ordination by central organizations of both sides of industry (Norway and Sweden, but also Belgium in the 1970s); intra-associational co-ordination, where central organizations synchronize bargaining policies of their respective affiliates, usually through non-binding recommendations (Switzerland in the 1980s); co-ordination by pattern-setting key sectors, notably the metal trades (Austria and Germany); State-imposed co-ordination through wage freezes or compulsory arbitration (in France, the State uses public sector wage fixing to determine the pattern in the private sector); State-sponsored co-ordination, where the State joins into a tripartite bargaining process; and uncoordinated bargaining (UK in the 1970s and 1980s, besides US and Canada). Traxler also notes that deregulation and decentralization of bargaining lack a positive effect on performance because they fail to elicit the sort of competition in the labour market which results in an efficient resource allocation.

4 Social Pacts and collective agreements to preserve jobs

Against this backdrop of increasing enterprise autonomy and the relative absence or weakness of the social actors, what scope is left to the social dialogue in its broadest sense, including consultation and collective bargaining, for preserving and creating jobs in Europe?

Within the broader framework of policies aimed to reduce unemployment, the social partners in various European countries have tried to develop, sometimes with the participation of governments, new forms of collective bargaining focusing on employment creation and protection. These vary in their forms, substance and level of dialogue, depending on the national industrial relations systems which differ widely in the EU member States. While there is no consensus among the social partners about the extent to which collective bargaining contributes to improve the job situation, a growing number of agreements at various levels have been concluded with this aim in view, but providing different ways to reach it.

National agreements aim to reduce unemployment and to preserve and increase employment. They usually contain a package of macro-level economic, industrial and labour market measures to facilitate reaching these objectives - like changes in legislation (for instance on recruitment and termination in Spain; on training, levels of bargaining, ending State monopoly on placement services and coping with the underground economy in Italy and Spain), stimulating productivity and competitiveness and wage moderation (as for instance, in Ireland, Finland, Norway and Sweden). National cross-sectoral agreements on employment and training have also been signed in France, Greece, the Netherlands, Portugal and Spain.
Sectoral agreements have mainly aimed at avoiding redundancies and only in a few cases they also provided
for job creation, particularly for young unskilled workers and the long term unemployed (e.g. in Austria, France,
Germany and the Netherlands).

Agreements at enterprise level to maintain or create jobs have followed the pattern of the « first generation »
flexibility agreements of the 1980s. They usually contain provisions on working time reduction and reorganization,
more flexible work schedules (late opening hours, work on Saturdays and Sundays, shift work, night work,
compressed workweeks, work on weekends, annualized or seasonally fluctuating work schedules to meet changes
in business demand, and the related handling of overtime compensation, often through time-off), part-time work
(introducing different schedules, possibility of rotating between part-time and full-time jobs), resorting to tempo-
rary work, early retirement (increasingly associated with part-time), wage moderation or reduction (for instance
reduction in working time with limited or without loss of pay), using « opening clauses » in collective agreements
to allow enterprise agreements to deviate from sectorally agreed pay rates. While the scope of agreements and the
methods for achieving the employment objective vary widely among European countries, it appears that globally
this objective has been achieved in most cases.

The noticeable tendency to decentralizing bargaining to enterprise or plant level allowed the social partners to
agree on concrete targets, taking into account the specific situation of the company - its competitive position, its
capacity to preserve jobs or recruit, and the trade-offs that the workforce is ready to make in terms of pay cuts,
shorter working time, less overtime work or compensation, and work on weekends. These are topics which require
solidarity and are therefore more likely to be achieved in a smaller community than for a sector or a country as a
whole.

These agreements also include measures to facilitate recruitment by offering lower pay to new recruits (Nether-
lands and Germany), and increasing the number of apprenticeships.

In examining the European experience, three points stand out:
• Collective bargaining is undergoing change in scope, level of negotiation, and topics discussed at the various
  levels, but it exists and certainly contributes to the major policy formulation in Europe on how to cope with
  the serious and persisting unemployment crisis.
• Different levels of negotiation coexist in the same country, but addressing different issues. Negotiations at
  national level, reflect the quest for a revival of the « social contract » that characterized Europe in the post-
  World War II years. They focus on macro-economic policies related to employment promotion, such as trai-
  ning policy (Italy and Spain), labour market flexibility (Italy and Spain, and the failed « Alliance for Jobs »
  in Germany), incomes policy and wages (Finland, Ireland and Portugal), social security and taxation
  (France, Ireland, Italy and Portugal), pensions (Austria and Italy), harmonizing and reforming collective
  bargaining (Italy, Spain) and working time (France and Sweden, and to a lesser extent Italy and Spain).
  Sectoral bargaining tend to deal with pay and training, but the increased autonomy of the enterprise now
  tends to decentralize pay negotiations. Flexibility agreements safeguarding jobs in exchange of reduced
  working time have been concluded both at sectoral and local level - for instance, in Germany industry-wide
  agreements were concluded in the printing, metal trades and chemical sectors, as well as in over hundred
  enterprise and plant agreements, the most publicized ones were in the automobile sector - Volkswagen, Opel
  and Mercedes, Bosch (electrical appliances) and the retailing sector.
• Central bargaining and consultation have survived and even been revived in some European countries (for
  instance Ireland, Italy, Spain and Portugal), and have paved the way for achieving outcomes on highly
  controversial issues, such as pay restraint and pension reforms. Even where they failed, central bargaining
  has contributed to progress towards solutions by other means, notably by legislation.
• While there is an obvious trend of decentralization of bargaining towards the enterprise level, its global
  impact should not be overestimated. In countries with co-ordinated bargaining systems where industry-wide
  bargaining are common, enterprise agreements concluded in 1995 covered a very limited proportion of the
  private sector, no more than 8% in the Netherlands, 14% in Spain and 25% in France, compared to between
  70 and 80 % coverage for industry-wide agreements in these countries. Likewise, while decentralization has
  increased in Germany, the tradition of industry-wide agreements still predominates, even though it departs
  from the traditional division of labour between unions and works councils, by allowing modifications at
  enterprise level of clauses related to working time or pay to take account of local conditions.
• There is a complementarity between legislation and collective bargaining, relaying each other in the effort
to protect and create jobs. These points are illustrated below with examples of selected countries indicating
some of the bargaining outcomes at various levels.

In Germany3 the failure of the ambitious « Alliance for Jobs » proposed by the German metal trade unions at
the end of 1995, has been followed by a tripartite agreement in early 1996, eventually enacted into law, introducing
part-time jobs for older workers coupled with recruitment of new workers. The basic concepts of the Alliance were
also endorsed in industry-wide agreements in the chemical and textiles sectors in 1996, combining wage restraint
with job protection measures. In recent months employers’ organizations and trade unions appear to reconsider the
revival of the « Alliance for Jobs » after the Autumn 1998 elections as a means address the chronic unemployment
in a sustainable way.

The unions vehemently opposed the economic package introduced by the Federal government in September
1996 which included a reduction of statutory sickness pay from 100% to 80%. In the collective bargaining round

2. European Trade Union Institute (ETUI): Collective bargaining in Western Europe 1995-1996, and Collective bargaining in Western Europe
that followed, unions managed to reinstate the 100% sick pay in various economic sectors, but had to make substantial material concessions, particularly by giving up the year-end bonuses.

In the chemical industry, a pioneering collective agreement for 1998, was concluded in June 1997, covering 600,000 workers. It contains an « opening clause » allowing a pay cut of 10% below the currently agreed sectoral pay level, in case of cyclical downturn or temporary difficulties at enterprise level. The trade-offs include a greater participation in the enterprises’ results, and a commitment by the firms concerned to give up lay-offs or to increase investment. Up till now, « opening clauses » were conceded by IG Metall, the metal trades union in 1993 in the Eastern Länder (former GDR), where unemployment is double the rate of the Western Länder and where enterprises threatened to withdraw from collective bargaining and from the sectoral employers’ federation. Earlier in 1997, at enterprise level, IG Metall and IG BCE, the big labour union for public workers, concluded a new agreement with the central works council, which builds upon previous agreements concluded in individual plants in 1995, which states the management’s commitment to invest in German plants and refrain from compulsory redundancies up till the end 2002, in return for a reduction of 1.25% in any sectoral level pay increase over the next four years, linking the full-payment of the Christmas bonus (13th month pay) to a maximum absenteeism of 6% per year, and introducing more working time flexibility to meet production needs.

But there are also enterprise agreements which improve on sectoral outcomes. Thus for instance, an innovative agreement on part-time working was concluded in January 1998 at Daimler-Benz. It allows older employees to work part-time in the year prior to retirement with 85% of their former pay (instead of 70% granted by legislation and 82% provided by the sectoral agreement). Workers can opt, over a 10-year period to work full-time for five years and stop working for the following five years while maintaining the same pay level throughout. The company will also grant a lump-sum equivalent to 8.5 months’ pay to those who retire at age 60 to compensate for the reduction in pensions before age 65 (normal lump sum is only 4.5 months). It is estimated that the company could allow 1% of the workforce to benefit from this provisions in 1998, that is some 150’000 people.

While most of these agreements are « defensive », i.e. preserving jobs, it may be worth pointing out that the much publicized Volkswagen agreements have increased company competitiveness and contributed to preserve and even create jobs. The 1993 VW agreement focused on avoiding mass redundancies of some 30’000 workers by reducing working time by 20% with pay concessions, the 1994 agreement introduced a 4-day work week, work on Saturdays, and pay cuts which enabled the company to reduce its costs without dismissals. A new agreement in mid 1997, introduced part-time work for older workers, similar to the Daimler-Benz agreement, but spread over 5 years instead of 10. At present, the work week at VW is on average 28.8 hours and may extend up to 38.8 hours in peak periods. In 1997 the company made record profits of 1.36 billion DM which enabled it to recruit 19’000 workers, of which 8’600 in Germany.

In France the failure of central bargaining on employment flexibility, in 1984, put a stop on tripartite dialogue for almost a decade, but the national working time agreement concluded in June 1995 aimed at reviving sectoral bargaining on the flexible organization and reduction of working time, combined with job creation incentives. Another national multisectoral framework agreement on employment was reached a few months later (October 1995), devolving responsibility for negotiation of working time arrangements to the sectoral level, allowing for the annualization of working time in conjunction with the reduction of hours, limiting recourse to overtime and using compensatory time-off instead of extra pay. A further impetus for company bargaining was provided by the aforementioned « Robien Law » adopted in mid 1996 on the promotion of employment by the arrangement and reduction of working time via collective bargaining. The law improved on an earlier legislation(1993) which proved to be too complex to implement. The Robien Law elicited a positive response. Within a 3-4 months, some 160 companies in a broad range of sectors signed agreements. These included both big companies and small and very small ones, some of which never negotiated before. « Offensive » agreements, aiming at working time reduction to enhance employment, are the most common among those concluded in small enterprises, while the « defensive » agreements, aiming at preventing economic redundancies, were more common among the bigger enterprises. By June 1997, some 484 agreements have been signed. By end November 1997, some 1’500 agreements were signed, covering a total of 154’473 workers, the great majority of which (1’030) aimed at creating jobs, concluded mainly in small enterprise in the service sector. About a third (412) aimed at preventing redundancies through reduction of working time, concluded mainly in big industrial companies. Overall, the agreements resulted over a rather short period in creating 20’000 new jobs and preserving 15’0001. These numbers, achieved by voluntary arrangements, may be assessed against the extra 210 000 new jobs from the new legislation on 35-hours which should cover all companies within five years (see above Section II (b) (i)).

The Italian experience provides an interesting illustration of a positive inter-relationship between central collective bargaining, local bargaining and legislation. It also illustrates the potential of reaching consensus on highly controversial issues through a tripartite approach to employment policy. It is based on concerted action by which the social partners formulate a long term coherent strategy, combining macro-economic, labour market and employment policies. An important agreement in this area, signed in 1993, was not implemented, and after long and hard negotiations a new agreement was reached in September 1996. It contains a major reform of the training system, a labour market reform, Government’s assistance in modulating social security contributions according to hours worked, relaxing the ban on temporary work agencies, job promotion measures in community work in depressed areas, and a reform of working time arrangements. The agreement provided for the necessary accompanying legislative measures, which were adopted in June 1997, the so-called « Treu Package » (see also above Section II (b) (i)).

In the Netherlands, tripartite social pacts on wage moderation and productivity have been the practice since 1982, focusing on solving the strong structural unemployment that characterized that economy (see also above

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Section II (b) (i)). The positive outcome on jobs has been achieved by a shift in the social security system, a more active labour market policy emphasizing entry to the job market or training rather than remaining on the dole, and a very high proportion of part-time in the total employment - it rose from 15% in 1975, to 22% in 1985 and 37% at present. Interestingly, while part-time is predominantly female (73%), male share is increasing and reaches now 17%. Part-time is more commonly accepted in this country because unions supported its job-redistribution potential at a time of economic adversity, women actually demanded to work part-time and bargained for it, the great majority of collective agreements state that benefits are on a *prorata* basis and contain antidiscriminatory clauses and career paths for part-timers. The wage gap between part-timers and full timers on hourly basis narrowed to a little under 5%. Moreover, the reduction of standard work week played a small role in increasing full time jobs. In fact, working time legislation dated back to 1919 and was only recently amended (January 1996) to give more responsibility to the social partners in determining working time and in monitoring its practice [21].

In Spain, after the failure of negotiations in 1994, and in the face of persisting and very high unemployment - the highest in the European Union (rising from 19.5% in 1984 to 24% in 1994) - the two main trade union confederations, UGT and CC.OO. accepted an informal agreement on pay moderation in return for job creation and a reduction in precarious jobs. The disappointing results in terms of job creation and employment security led the unions to withdraw from the agreement in early 1996. However, with the exceptional economic performance of Spain - the fastest growing country in Europe - and employers arguing that they cannot recruit because of labour market rigidities, particularly regarding dismissals and severance pay, the unions eventually recognized the need for relaxing the regulations (see also above Section II (b) (i)). A year-long negotiation was concluded, in Spring 1997, by an agreement on labour market reform, reducing severance pay, which was deemed to discourage recruitment, promoting open-ended contracts, limiting temporary contracts (96% of contracts signed in 1996 were temporary), providing better protection to part timers, guaranteeing training for young people and improving the apprenticeship system. Measures to streamline collective bargaining and co-ordinate the different levels were also included as well as provisions on information and consultation rights on the economic situation of the sector or region concerned and on changes in the company that may affect the workforce\(^2\).

5 Social dialogue to promote employment: The European dimension

Concern among EU member States about the high levels of persistent unemployment, has been repeatedly discussed at the EU level and a jobs strategy debate was launched by the 1993 European Commission White Paper on Growth, Competitiveness and Employment, followed by recommendations adopted at the Essen Summit in December 1994 and various job creation programmes with little concrete outcomes. This seems now bound to change with the new statutory co-decision rights in social policy given to the social partners by the 1991 Treaty of Maastricht, giving formal acknowledgement to social dialogue in the Social Protocol annexed to the Treaty, and in the employment chapter, included in the Amsterdam Treaty, negotiated in June and signed in late 1997. There seems to be now a political commitment to consider employment policy as a priority in the context of the accelerated European integration, with the launching of the Economic and Monetary Union now approved for 1 January 1999. This development has enabled member States to agree on a more active employment promotion strategy at the Luxembourg Employment Summit of November 1997 which includes the establishment of national annual plans and periodical monitoring of results.

The enhanced status of social dialogue in the Amsterdam Treaty gives teeth to the social partners participation in the European social policy formulation, which was lacking before.

For over a decade, UNICE, CEEP and ETUC, the European social partners representing respectively, private business, public enterprises and trade unions, have taken part in some form of social dialogue at the European level, which more often than not translated into non-binding joint opinions and exchange of information. As Zygmund Tyszkwitcz, Secretary General of UNICE acknowledged, the social dialogue restored in 1985 by Jacques Delors, the then President of the European Commission, enabled the social partners to guide the legislative process at the European level, which assured a more balanced approach, but it was not satisfactory because it had no legally binding effect\(^2\).

The Maastricht Treaty enlarges the mandate of the European Commission to include the promotion of a high level of employment and of social protection, the improvement of living standards and social and economic cohesion in member States. The new mandate thus includes the need to address unemployment, and to carry out policies that have a supranational scope. Social policy thereby acquires its own legitimacy, independently from the implementation of the Single Market. But, as the European Social Observatory\(^3\) points out, the extended mandate may be more formal than operational because of the rule of unanimity required for some highly sensitive topics such as social security and social protection, protection of workers in case of termination, the collective representation of labour and management, financial contributions for employment promotion measures or the working conditions of non-EU workers.

The new Treaty introduces two major changes in the Rome Treaty in the social field. It enables the social partners to conclude at European level collective agreements and to validate them, as appropriate, by a decision of the European Council. They can also transpose these agreements to the national level. These changes establish at the European level the characteristics of a social model based on the autonomy of the social partners and on collective bargaining practice that exist at national level. The Maastricht Treaty grants in fact the social partners an unprecedented statutory right to participate in policy formulation by requiring the European Commission to consult

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management and labour first on the possible direction of Community action, and subsequently on the substance of draft proposals. More importantly, the social partners can decide to deal jointly with certain matters and reach agreements, which may then be implemented either directly by both sides of industry at national level or, following a joint request by the social partners, through a decision by the European Council on the basis of a proposal by the Commission, a decision which is binding on member States. In this latter process, the text agreed upon by the social partners may not be changed by the Commission or the Council.

Two such joint agreements, which have an impact on employment, have so far been successfully negotiated and became European Directives, one on parental leave adopted in 1995, and the other, on part-time work, adopted on 15 December 1997. The latter prohibits discrimination against part-time workers and encourages the development of part-time working on a voluntary basis. The part-time agreement stems from the European Commission’s more comprehensive 1990 proposals on atypical work which were blocked in the European Council and were eventually moved to the Social Policy Agreement framework in 1995. The Directive provides that implementation in member States can be done via legislation (within two years) or by collective agreement (within three years).

It may be recalled that UNICE, the peak organization representing the private sector at the European level, has always attached great importance to the autonomy of the social partners and to the principle of subsidiarity, which requires that Community action should not be taken where other levels can perform better or equally well. It deems that it is up to the social partners to determine which matters would be better dealt with at the Community level, in the best interests of workers and of companies.

It may be recalled that UNICE and CEEP - representing the peak organization of public sector enterprises at the European level, together with the ETUC, constitute the European social partners which are consulted on the European Commission’s social policy initiatives, participate in various tripartite advisory committees which advise the the European Commission on action to be taken in relation to various specific policies, and are represented on the Standing Committee on Employment

The November 1997 Employment Summit of Luxembourg requires member States to draw up annual national employment plans based on guidelines established for 1998 by the European Commission and endorsed by the European Social Affairs Council on 15 December 1997. The immediate use of this procedure, established in the employment chapter of the Amsterdam Treaty, has been unanimously approved before the Treaty itself has been ratified.

The guidelines focus on four areas: improving employability, developing entrepreneurship, encouraging adaptability and strengthening equal opportunities policies. Social partners are called upon to play an active role, i.e. by concluding agreements to improve employability through measures to increase training and work experience possibilities, by reaching sectoral and enterprise agreements to modernize work organization and introduce flexible working arrangements, by examining jointly possible scope for incorporating in legislation different types of employment contracts ensuring an acceptable balance between flexibility and security. The national employment plans were to be submitted to the EU summit in Cardiff in June 1998 and assessed at the Vienna Summit in December 1998.

UNICE, CEEP and ETUC agreed in February 1998 that they will monitor the application of the employment guidelines through the Social Dialogue Committee. ETUC Secretary General, Emilio Gabaglio thought it significant that the social partners had agreed on joint evaluation of the employment strategy. But ETUC’s readiness to reach a joint policy statement on this issue will depend on the political commitment of European employers to the effective implementation of this strategy. ETUC and its affiliates are making efforts to ensure that the national employment plans are formulated in close consultations with all parties concerned, and hope that members of UNICE and CEEP assume their responsibility in the same way.

At the sectoral level, the social partners in the commerce and distribution sector are probably the first to have developed over the past decade some form of social dialogue at the European level between EURO-FIET, representing the unions, and EuroCommer, representing the employers. While recognising that there are differences of approaches to employment issues, they have managed to agree on joint statements on employment and vocational training in the commerce sector (in 1988 and in 1997), they set up special working groups on employment (in 1995) and on preventing racism and xenophobia (late 1997); they undertook a major survey on employment creation - supported by the European Commission, and held a series of consultations with the Commission on the preparations of a Green Paper on Commerce and Distribution. While welcoming the Green Paper, they both criticized its inadequate coverage of employment aspects in this sector which employs more than 22.5 million workers in Europe - some 16% of the total workforce.

They put forward a common demand to be directly consulted on all issues with an impact on employment and social conditions, including in the Standing Committee on Employment and the Commerce and Distribution Committee. They launched in November 1997 a joint study and a discussion document on how the European retailers and wholesalers can best support the global campaign to end the abuse of child labour. They have also discussed their shared concerns about the transition to a single European currency. However, on the issue of work organization, on which the European Commission published a Green Paper, EuroCommerce refused to hold discussions with EuroFIET, but indicated that it may accept to do so in future. The consultations and negotiations of a joint agreement on parental leave have brought to the fore the issue of representativity of sectoral social partners who did not participate in the negotiation, namely, on the employers’ side, UEAPME, representing SMEs and EuroCommerce, and on the trade union side, CEC, representing managerial and professional staff outside ETUC. EuroCommerce wished to negotiate on this subject with Euro-FIET, but the latter could not accept it while ETUC was still negotiating with UNICE and CEEP. Once the agreement was reached, Euro-FIET was ready to use a clause in it which enables the social partners at the appropriate level to conclude agreements adapting or comple-
menting the central agreement to take account of particular circumstances. However, the different approaches of both sides to the issues involved in the implementation of parental leave make the conclusion of a sectoral agreement in this area unlikely.

Another attempt at social dialogue limited to three countries has taken place in the chemical sector, where social partners from France, Italy and Spain started informal meetings in 1992, which have now reached a more active phase of discussion of innovative training and skill upgrading policies and sharing of experience. In a seminar organized in France in November 1997 bringing together representatives from both sides of industry, participants decided to share responsibility in comparing the most interesting training experiences in the chemical sector of the three countries. The French participants prepared a questionnaire which has been distributed to some twenty companies in each country, the Italian participants agreed to negotiate European subsidies for the project and the Spanish participants took responsibilities to prepare the final synthesis of replies to the questionnaire. During the seminar some leading French companies presented their experience in new work organization based on competencies, skill upgrading of low-skilled older workers. Similar seminars were planned in Italy and Spain during 1998. The dialogue is expected to extend to other topics such as the environment and safety.

More recently, in response to the threat of a downward competition on wages and working conditions collectively agreed within EMU countries, the main trade unions federations and some sectoral unions of four countries - Belgium, Germany, Luxembourg and the Netherlands - met in September 1998 and adopted a joint declaration on close cross-border coordination of their national collective bargaining strategy. Noting that recent economic growth in EU countries and improved productivity have not resulted in increased purchasing power, the declaration calls for a productivity-oriented collective bargaining, which reflects the evolution of prices and labour productivity. It also calls for job-creation agreements at sectoral and enterprise levels, including work redistribution and shorter hours of work. Social benefits must also keep pace with wage developments and tax systems should be harmonized to reduce the burdens on wage earners while promoting employment. Further training must be available and the undesirable forms of work flexibilization must be avoided. Governments should base their policies on job creation and a welfare State, while the social partners must be fully involved in socio-economic decision-making. The unions in the four countries see this initiative as an important step towards European cooperation on collective bargaining.

6 Concluding remarks

What was the global impact of the measures taken to increase flexibility on jobs and on social dialogue?

A first remark, the types of labour market flexibility promoted by the 1986 OECD paper have encouraged the expansion of « atypical » forms of employment and seriously threatened minimum levels of social protection to the workers’ concerned without contributing to a decline in unemployment.

With hindsight, some basic assumptions on labour market rigidities have either not been sustained by evidence or have proved to be wrong, while some of the assumed implications for social dialogue have been refuted.

By the late 1980s there was no convincing economic theory demonstrating a positive causal relationship between labour market flexibility and a significant drop in unemployment. The increased flexibility in wages and employment and the reduction of social protection including unemployment compensation during the 1980s in Europe has not eased the unemployment situation. Real wage rigidities in Europe have not increased and are not now higher in Europe in comparison to the US (Paul Krugman echoes Samuel Brittan of the Financial Times by stating that « European labor costs have not risen in relative terms when the exchange rate adjustment [to the dollar] is made» [15]). Nor has the correlation between shorter working hours and job creation been confirmed by experience - the main impact was the improvement of productivity.

Moreover, Governments’ reluctance to fully introduce the draconian measures recommended by the OECD was motivated by the threat of disrupting social cohesion. The UK which has introduced wide-ranging reforms in line with those recommendations has experienced widening wage differentials, increased exclusion of people from the labour market, low productivity levels and low investment share in GDP- as compared to other European countries. The recent upturn of the economic cycle had probably achieved quicker and faster results in terms of jobs (in France and Germany, for example, and probably accelerated the job creation in Spain).

The reduction in wage costs in the 1980s has not automatically led to a fall in prices in the short term, and hence did not enhance competitiveness of enterprises.

Labour costs do not appear to constitute the determining criteria in location and investment decisions and the reasons for persistent unemployment must be sought in more deep-seated structural problems, macro-economic policies such as exchange rate and interest rates. The recent rise in the value of the Pound Sterling and its adverse impact on the competitiveness of British manufacturing and on the attractiveness of the UK as a production site are there to remind us of the importance of the macro-economic monetary and financial factors outside the labour market, and the frailty of a apparently comparative advantage of low wages and highly deregulated labour market. The UK opt-out from the single European currency also led the auto manufacturer GM’s UK Vauxhall subsidiary to demand from the workers, in return for not closing two plants, the competitiveness of which was hurt by the revaluation of the Pound, to link pay increments to the pound exchange rates with the D-Mark. This novel agreement, negotiated in April 1998, is the first to have management share the risk of the exchange rate fluctuations with employees.


the workforce to secure increase in productivity. (A 0.5% pay increase will be paid in the third year of the agreement if the pound sterling drops below DM 2.70 for two consecutive months. Such a drop, combined with new work practices, will allow one of the UK plants to narrow the cost gap with other European plants.)

The pace of diffusion of new technologies is a significant factor in enterprise competitiveness which requires a highly qualified and committed workforce, willing to invest in the continuing skill upgrading required by high technology, which implies job security. This has been recognized by the OECD in a 1996 study on enterprise competitiveness.

Also, while low wages have motivated some delocalization of industries in the wake of deregulation and liberalization of trade and capital flows, the impact on the direction of trade and investment flows between developing and developed countries should not be overstated. Imports of manufactured products from developing countries to OECD represent less than 4% of GDP in the latter, while the cumulative net transfer of capital to developing countries amounts to less than 2% of the capital stock of industrialized countries. In fact, the volume foreign direct investment has significantly increased over the past 15 years in the European Union, including in relatively highly regulated countries where labour costs are considered to be high, such as Belgium, France, Finland and Sweden.

In the flexibility debate, labour costs both direct and indirect, were identified as the major factor in labour market rigidity, lack of enterprise competitiveness and persistent unemployment. Arguably, labour costs are an important factor in both labour intensive and knowledge-intensive industries, but their relative importance varies significantly among industries and companies. High labour costs can encourage a search of flexibility which inhibits an optimum resource allocation. The wide options in this respect include: (i) substituting capital for labour (this of course does not apply to the labour intensive sectors); (ii) resorting more massively to temporary workers (the growth of the much less protected part-time work and fixed-term contracts throughout the EU, as well as recruitment through temporary employment agencies, which recently saw a record surge, for instance in France); (iii) sub-contracting, out-sourcing, sometimes to people who are forced to become « self-employed » though fully dependent on the contracting company; (iv) delocalizing physically or virtually, for instance, by moving formally the headquarters of companies from France to the UK where social contributions are lower - as some retailers have done; or more subtly, moving the locus of collective bargaining and of the employment contract, as was recently envisaged in two airlines, namely by Swissair, the main Sabena shareholder, in the case of the Sabena airline staff which would be moved from Belgium to Switzerland to avoid the very high indirect labour costs and taxes in Belgium, and by Virgin Express, the low-cost carrier based in Brussels, which went further by announcing that it was considering moving to Ireland or the UK unless the Belgian government lowered social costs; and (v) moving activities into the « underground economy » - a phenomenon that is far from being limited to developing or « emerging » economies, since it is currently estimated by the EU Commission to constitute on average between 7 and 16% of the GNP of the EU - against 5% in the 1970s - employing between 10 and 28 million people, that is, between 7% and 19% of total employment, going beyond 20% of GNP in Greece, Italy and Spain.

Labour costs are not the only determinant of company performance - a number of other internal and external factors play a significant role. Internally, high pay is not a factor in a vacuum - it depends on productivity growth, innovation, quality of products and market response - which in turn depend on the quality of management styles, the high skills and continuing investment and commitment to skill upgrading, staff motivation and involvement, adequate rewards to innovation, modernization of production processes and work organization. The growing emphasis in business literature and performing corporations on the importance of staff loyalty and lifelong learning - a backlash from the previous fads of delayering, downsizing and lean companies - is indicative of the change in appreciation of the importance of the human factor in performance. Some Gurus, like Peter Drucker who « preached in the desert » though fully dependent on the contracting company; (iv) delocalizing physically or virtually, for instance, by moving formally the headquarters of companies from France to the UK where social contributions are lower - as some retailers have done; or more subtly, moving the locus of collective bargaining and of the employment contract, as was recently envisaged in two airlines, namely by Swissair, the main Sabena shareholder, in the case of the Sabena airline staff which would be moved from Belgium to Switzerland to avoid the very high indirect labour costs and taxes in Belgium, and by Virgin Express, the low-cost carrier based in Brussels, which went further by announcing that it was considering moving to Ireland or the UK unless the Belgian government lowered social costs; and (v) moving activities into the « underground economy » - a phenomenon that is far from being limited to developing or « emerging » economies, since it is currently estimated by the EU Commission to constitute on average between 7 and 16% of the GNP of the EU - against 5% in the 1970s - employing between 10 and 28 million people, that is, between 7% and 19% of total employment, going beyond 20% of GNP in Greece, Italy and Spain.

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high-skilled workers at the expense of the low-skilled workers, while providing the former with high wages, was associated with widening of the gap between rich and poor. Demographic factors also seem to have played a positive role - civilian employment increased in the US from 80 million to 130 million between 1970 and 1996, that is by more than 50%, whereas it practically stagnated in Europe over the same period (but not in the high performing Ireland), rising merely from about 140 million to less than 150 million over the same period. Alan Krueger and Jörn-Steffen Pischke, two economists from Princeton and MIT, attribute more than half of this employment growth to the rapid population growth, increasing the participation rate of women by significantly increasing the participation of women in the labour market [14] and by increasing the labour pool through immigration (estimated to contribute about tow-thirds to the population growth), where immigration rules give priority to the highly-skilled.

The frequent reference to rigid employment regulations supposed to impede recruitment may have sometimes been overstated in some European countries, such as Denmark, Finland and Germany. These were the findings of a meeting, convened in Ottawa by the OECD in December 1996, to discuss changes in workplace strategies to achieve better outcomes for enterprises, workers and society.

Thus, for instance, the usually criticized high labour cost and rigid employment regulations in Germany is overstated, as shown in a survey of enterprises and establishments undertaken by the Nuremberg-based Federal Institute for Employment Research [1] for the period 1993-95. The survey notes a large variety and a considerable extent of both numerical and functional flexibility in terms of contracts of employment, termination, working-time patterns, pay and training. Thus for instance, numerical flexibility has been achieved by enterprises by means of termination of contracts under applicable labour legislation staff turnover and the use of both core and « peripheral » staff accounts for around 36% of all personnel outflows. Labour turnover - measured as inflows plus outflows as a percentage of the workforce - amounts to at least 11% of all employees and has slightly increased. « Peripheral » staff - which includes fixed-term contracts, temporary workers, staff on training, subcontracted staff and independent workers on service or work contracts -, accounts for around 9% of an enterprise’s workforce, and is on the increase. Moreover, some 3.5 million people work only a few hours per week. Part-time work has become a normal phenomenon rather than the atypical form of employment it used to be. It is increasing rapidly and plays a role in almost 3 out of 4 enterprises in 1995. Over 95% of enterprises with more than 200 workers offer part-time work. The flexibility in the arrangement of working time is characterized by combining different forms of working time schedules enabling enterprises longer working hours than those collectively agreed. One in three companies (but about 60% of the big companies) « decouples » working and operating times. They extend the latter mostly through overtime (53%), staggered working hours (35%) and weekend work (35%). Enterprise flexibility in terms of pay has been enhanced through increasing wage differentials, decreasing « wage drift », that is the relative deviation of relative pay from collectively agreed scales and a reduction in the number of enterprases covered by collective agreements (from 72% to 62% of all enterprises). Enterprises also increased their R+D budgets and market research, invested in information technology and modernization and introduced organizational changes (viz. flattening hierarchies, delegating of decision-making, introducing group work, creating profit centres). Where such changes were introduced, they were associated with more frequent hiring than staff reductions or transfers. As noted earlier, functional flexibility requires higher qualifications and is associated with a decline in activities requiring low skills. This is confirmed in the German study, which notes the high incidence, as compared to other OECD countries, of skilled workers attending training and continuing education in the surveyed enterprises (respectively 5% and 10%). However, whereas in-house training caters for the needs of 9.3% of skilled workers and 16.2 % of qualified employees, it benefits only 2.6% of low-skilled workers. Over a longer time perspective, there has been a significant drop in unskilled or semiskilled staff from 41% of the workforce in 1977 to 29% in 1994, while the share of skilled workers increased from 56% to 64 %. These findings tend to confirm those of the European Foundation (see above, Section II).

The idea that the high European labour costs associated with rigid wage structure and social protection and the resulting high unemployment are the price to be paid for inflexible labour market as compared with the US is now increasingly challenged by economists, notably by Stephen Nickell and Brian Bell [18], who argue that if the latter hypothesis were true, growth of the higher paid and higher skilled jobs would have been similar in Europe and the US. This has not been the case because the employment slack hit both the high and low skilled jobs. Neither do they find evidence to support the wage flexibility argument for the US better performance. In fact they find that US job growth over the past decades seems not to be sensitive to the level of real wages. The labour market has absorbed large increases in the working population without much impact on real wage levels. They also note that the unemployment rate was in fact lower in many EU countries than in the US for most of the past two decades, the situation has changed since 1990. The explanation for the different performance must therefore be sought elsewhere. Stephen Nickell also points out that differences within Europe are much greater than the difference between Europe and the US. He estimates that about a third of the population of Europe OECD member States lives in countries where the unemployment rates are lower than in the US, namely in Austria, Norway, Portugal and Switzerland, which have highly regulated labour markets, whereas the UK deregulated model has had a higher jobless rate since 1983 [17] even though it has significantly declined in the past two years (in part also as a result of withdrawal of people from the labour market...).

The better economic and job performance of some European countries also coincides with the a more dynamic social dialogue and collective bargaining, as is the case of Austria, Ireland, the Netherlands and Norway. While unemployment is still high in Germany, Italy and Spain, the existence of such dialogue has probably improved the situation even if mostly in a passive manner, that is by preserving jobs and improving enterprise and employee capacity to adjust.

At macro level the social actors need to have voice in the determination of the basic parameters of economic, monetary and fiscal policies which provide the framework for enterprise competitiveness and have a direct impact on pay and jobs. In the areas concerning more directly the labour market, they should be associated in the formulation of the basic economic and implementation of measures aiming at:
• adapting social protection legislation to maintain pay levels which encourage people to move out of welfare and take up jobs without loss of income (via subsidies, tax credits or more flexible regulations on access to unemployment benefits for those who cannot keep their jobs);
• adapting the legislation on part-time work to reduce discrimination in access to training and to social protection;
• adapting legislation on early retirement in order not to excessively penalize those who opt for leaving earlier;
• adapting legislation on working time to allow more leeway for companies and workers to fix schedules that suit their choices, but keeping some safeguards against abuses;
• formulating a forward-looking education and training policies which take into account the current needs of lifelong learning for developing a high competence and high skilled labour force, but also taking into account the specific needs of the low-skilled who constitute the bulk of the growing « non-core » labour force and of long-term unemployed; and last, but not least,
• adapting the industrial relations systems to be able to respond to the changes brought about by the integrated European market, a globalized economy, the coexistence of large multinational corporations and millions of small and medium enterprises, the growing segmentation of the labour force and the weak institutional frameworks for collective bargaining.

At meso and micro levels it is necessary to develop a clearer understanding of the broad range of issues involved among management and employers’ associations and trade unions and other staff representative bodies, and more readiness to experiment new directions in the employment relationship and management practice that are conducive to building trust and confidence.

These conclusions are very much in line with those unanimously adopted by the 83rd Session of the International Labour Conference in 1996 - the annual assembly of the ILO, the only tripartite international organization in the UN system - on employment policies in a global context, which call for the creation of an enabling global environment for overcoming the problems associated with the increasing globalization and intensified competition. They enumerate no less than 11 measures to enhance the adaptability of labour markets and the efficient use of human resources. They call on member States to formulate clear policy priorities aiming at creating and expanding employment and improving its quality. Universal access to basic education and lifelong skill development and education are central to these policies. Emphasis is laid i.a. on the need to « establish measures to allow workers to adjust to the changing pattern of international production and trade and promote their security of employability », to « combine employment security and flexibility in the utilization of labour through, amongst others, collective bargaining on the reorganization of work and investment in appropriate skills », and to examine whether there is a need for labour market reform and the nature of such reform. They recommend the promotion of labour-management co-operation which contributes to productivity enhancement and facilitates product innovation, using effective system of staff and trade union participation in decision-making related to job creation, flexibility and security. Tripartite forums of social dialogue are recommended for the formulation of employment strategies 1.

These recommendations imply the recognition and implementation of fundamental human rights at work, enshrined in international labour standards, namely on freedom of association and the effective recognition of the right to collective bargaining, the elimination of all forms of forced or compulsory labour, the effective abolition of child labour, and the elimination of discrimination in respect of employment and occupation in all its forms. In the context of globalization, such recognition and implementation must be universal. To achieve this world-wide endorsement, a Declaration concerning fundamental human rights at work was discussed and adopted by the 86th Session of the International Labour Conference in June 1998 2.

7 References


Labour market flexibility vs. jobs: A challenge for social dialogue in Europe

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